HOW FAR CAN THIS MARKET GO?

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

OVEMBER 9, 1957 85 CENTS

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Multi-stage liquid propellant rocket engines theoretically would make flight to Mars and Venus possible. In production by Rocketdyne for nation's major missiles, engines are important step in future flight.

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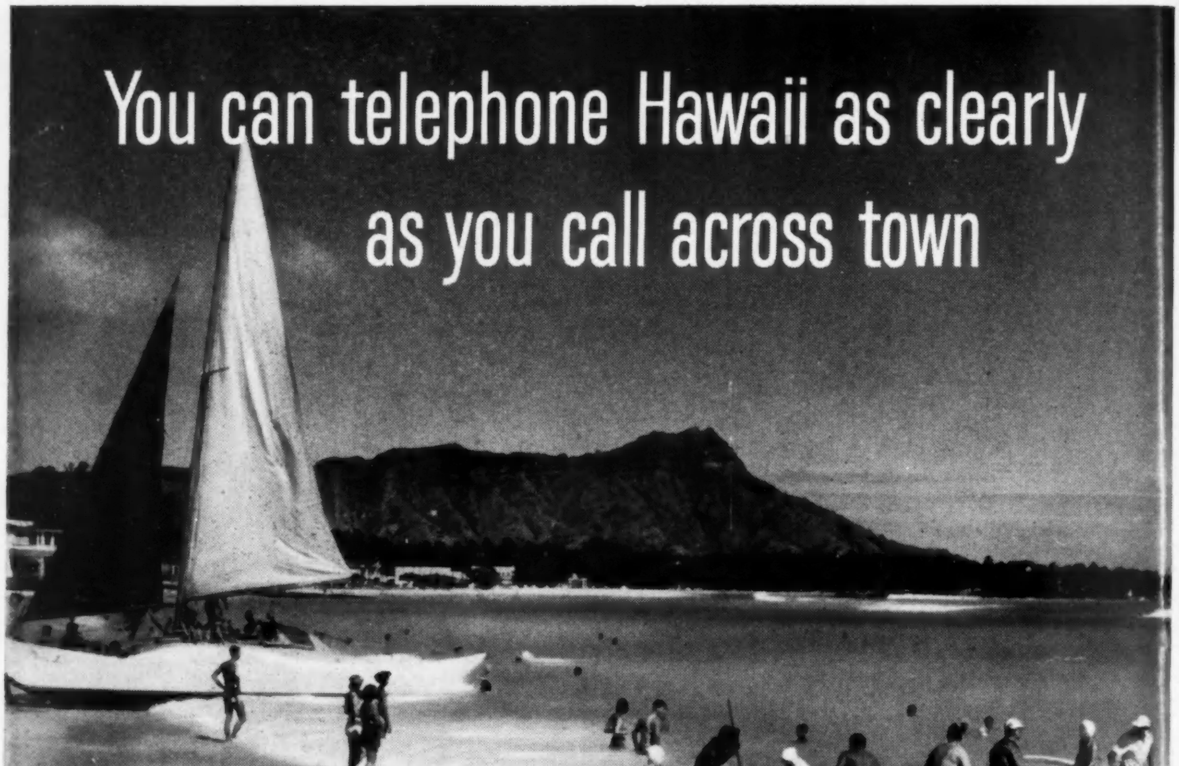


Waikiki Beach in Honolulu

New underseas telephone cables now link United States mainland and the Hawaiian Islands

Another historic advance in communication service has just been completed.

For years you have been able to call Hawaii by *radio*telephone. Now new telephone *cables* have been added, stretching for 2,400 miles under the Pacific Ocean, connecting the United States mainland and Hawaii.

Added to the present radiotelephone circuits, the new cable system provides more and faster and better service. It makes it possible for you to telephone to and from the Hawaiian Islands as clearly as you call across your own home town. Just give the operator your call.

KNITTING THE WORLD TOGETHER

The original certificate of incorporation, American Telephone and Telegraph Co., February 28, 1885, includes these prophetic words: ". . . *and each and every of said cities, towns and places is to be connected with each and every other city, town or place in said states and countries, and also by cable and other appropriate means with the rest of the known world as may hereafter become necessary or desirable* . . ."

Bell Telephone System

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*

The Trend of Events

CAN WE PERMIT IT?... An eminent philosopher answering an inquiry as to what he attributes his eminence in the world of logic replied: "Each day I closet myself away from all distraction and devote one full hour to thinking". Whether he has many disciples in the practice today—even for one hour a *week*—may supply the root to global unrest, with particular application to the mess here at home.

I wonder how many realize that the defense program of the United States is being dictated by the Kremlin—it is good or bad, adequate or inadequate to the extent that it matches, betters, or falls behind, what the Russians are doing, it appears.

But it isn't only in the field of armament that the citizenry has abandoned its right, its duty, to think clearly. The District of Columbia telephone directory devotes five pages of small type to the mere listing of lobbies and trade associations doing business within a one-mile radius of the Capitol Dome. They flood Congress and the press with ex-parte presentations on every conceivable subject. Congressmen fume at lobbyists, but privately welcome them, utilize the pre-digested thinking that determines the fate of many bills, many national policies.

The propaganda machine and the epidemic of mental laziness that is abroad in a country bemused by univacs, automatic gear shifts, mechanical kitchens and even push-button warfare, appears to be taking its toll. Mechanical genius has made for easier living and has proved a boon to mankind, but has it led the citizenry down dangerous paths? Mass thinking is the essence of democratic processes, but when it is moulded by those who would use it against the common weal it is debilitating to the spirit that carried the country through other hazardous periods.

The Arkansas school disgrace can be traced to some degree to the existence of thought control apparatus in certain hands. That subversive influences were at work to prolong the strife seems most likely. The Negro is not the first minority to suffer in the United States. But in earlier and calmer days, the sovereignty of a State and the majesty of the United States of America, backed by bayonets, wasn't needed. A mob that left its thinking to a handful of agitators started the story, and a President who was taunted by a horn-tooting jazz band leader, and some others who are the repositories of group thinking, wrote an equally bad chapter.

On the day a GI banged the head of a heckler who allegedly grabbed at the soldier's rifle, it was announced that technicians at a Little Rock Hospital had perfected a new and important surgical technique. The story of violence was bannered on first pages; the story of a new boon to suffering mankind was buried inside the papers.

It is the rush of speed for speed's sake alone, the tap dance between accelerator and foot-brake, the pre-occupation with weapons and destruction of mankind, not the well-paced march toward a better humanity that is loading the rosters of mental institutions, and booming the market for

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS::1907—*"Our 50th Year of Service"*—1957

tranquilizer pills. What the country seems to need terribly is a buildup to more solid thinking, without distraction. Say, an hour a day!

GOLD BUYING IN GERMANY . . . Of more than usual interest is the encouragement being given the German people by the Adenauer Government to build security through gold buying.

It was particularly interesting to note that Bonn, which has so far managed to elude the specter of inflation haunting the rest of Europe, is taking steps to insure the security of its people by encouraging the sale of gold bars in packages suited to even the smallest income.

Psychologically, it has a great appeal, because gold and security are synonymous in the minds of most people. Secondly, if there is a choice between buying gold and spending, there are bound to be second-thoughts on this score among the hard-working and conservative Germans, especially those who remember the inflationary debacle after World War I. Thus the buying of gold will discourage foolish spending and have a tendency to hold prices down, prevent the inflationary trends that are currently depressing the position of the various European countries, and even threatening Germany.

Unquestionably, with the bitter experiencs of currency depreciation in our lifetime, which reduced the mark to worthless paper and made scraps of investment certificates, these people are likely to think in terms of "gold and security". This may give a wonderful fillip to the German position at a crucial time in economic history.

PROPHESY—IMAGINATION—REALITY . . . If the military and the scientific men could reveal their all today, they would turn out a report making the "Centuries" of Nostradamus seem like a document of conservative forecast. And the report would be shrugged off with a tolerant smile as it was four centuries ago when Dr. Notredame published his rhymed predictions.

Nostradamus is more interpreted than read. The meanings are not always plain. But what the Paris physician wrote lent itself to the interpretation that it forecast World War I, the rise of Hitler, World War II, and many other things.

Before Nostradamus and since his day, and before and since the events of 1917, people have been predicting that the world was in the process of decimation. Zion City had a near monopoly. Halley's Comet was supposed to end it all—half a century ago.

Forty years ago, almost to the month (October 13, 1917) daily newspapers carried stories of an estimated 100,000 persons who had come to Portugal to witness the Miracle of Fatima. They were panicked by a blinding sun glare. Many fled. "The sun is dropping to the earth; the world is coming to an end," they appraised.

Now we can add Sputnik I and II. And ahead are disclosures of intelligence that will convince some the world is to be saved, and perhaps an equal number that it is to be destroyed.

Sputnik opened, not closed an era. It brought some benefits. It has changed the attitude of this country toward national security, moved it out of the bargain basement shopping category. Economy is giving way to safety as the watchword.

Cape Canaveral, Florida, has turned into a wonderland: now we find we have perfected triggering apparatus and rockets and missiles that were only hinted at in the past. From the same site comes news of a recording optical tracking instrument, a camera that photographs missiles 50 miles away in flight. Radar has been developed so it not only scans the immediate horizon but spans a continent. The advances made in fighting plane and bomber construction pushes a craft off the assembly line in 18 months, sometimes already obsolete.

A satellite that can circle the earth for weeks, already is old hat in the outer space trade. We're told Russia was first by choice—our choice. We could have performed the trick earlier. Next on the agenda is the outer space platform from which scientifically trained personnel can eavesdrop on the world!

Fantastic? Before agreeing, consider the developments of only the past century or less: telephone, automobile, radio, television, aluminum, plastics, synthetic fabrics, vaccines, wonder drugs—100 other things you use daily. "They all laughed at Christopher Columbus when he said the world was round," begins a Tin Pan Alley product of a few years back; "they all laughed when Edison recorded sound."

The Sputniks have lessened the tendency to laugh at the "fantastic" and have intensified effort in research and development. Some of the products will be labeled defeat of civilization's last stand. But the latter-day Nostradamuses will live to see their predictions fulfilled, just as children and grand-children of the peeople who stood in the field at Portugal, October 13, 1917, will tremble in fear that it's all over now. History repeats!

EVENTUALLY—WHY NOT NOW? . . . This is the time to decide—although it is later than many people think—whether we are going to indulge in further expedients or take the thoughtful and intelligent steps needed to prevent a severe depression, which even now is in the making.

Those demands for throwing the debt ceiling overboard and letting the government debt rise freely to permit a spending spree, are setting a dangerous course that is unrealistic in the extreme. These individuals completely ignore the knowledge that disaster overtook various European countries in our lifetime, where the size of the government debt brought on such an intense inflation that it destroyed their currency and made worthless—investments running into the millions. In fact, at this very moment a new inflation is in the making in Europe.

It is well to remember the value of our dollar has already declined due to the abnormally high cost of government, labor and transportation (which in many cases is greater than the cost of manufacturing and selling the product).

We should close our ears to the cries of these pressure groups, who seek advantages regardless of what it can mean to our finances and our country as a whole. Their propaganda is being poured out in a vast stream, slanted to appeal to the immediate self-interest of the unthinking and those without the necessary background to understand the situation, which alone could enable them to evaluate the "hopped-up" theories presented.

Facts are—(1) that the debt ceiling gives Congress its most effective check over irresponsible government spending— (*Please turn to page* 250)

As I See It!

By CHARLES BENEDICT

SYRIA — MIDDLE EAST — ZHUKOV

Much has been said about Russia's success in Syria, but very little about why she succeeded. Propaganda is not the reason. To believe that would be to assume that the Syrians and other leaders of the Arab states are "innocents abroad" and do not know their way around—when the opposite is true.

Actually Russia succeeded because of well-conceived plans and a full appreciation of Arab psychology. For a deeper understanding of Russian gains in the Middle East, we must first recognize that Arab interests are united as far as destruction of Israel is concerned, but their interests are divided depending on whether they are oil-producing or oil-transporting countries. The former are fabulously wealthy, and the latter the poor relations, dependent for their revenue on the constant flow of oil through the Canal or the pipelines.

With her eye on the Middle East, this situation was made to order for Russia, who went into action immediately on the side of the Arabs against Israel, and set out to win the friendship of the entire Arab bloc. Her build-up of Nasser stiffened his back and finessed the British and the French into their disastrous attack which ended with the complete nationalization of the Canal.

This brought Russia such prestige in the Arab world that she was able to pursue a policy of infiltration in Syria—the other nation with a major transportation link to the West. And it is evident that she has succeeded according to plan.

The basis for her strength in Syria, and her flirtation with Lebanon was made clear by the recent suggestion of pro-Nasser elements in Beirut, that the oil-producing Arab states set up a fund equal to 5% of their oil income to be loaned out to the non-oil-producing Arab states at a low interest rate, for the purpose of building up their industrial economies—and clearly indicates the direction Arab thinking has taken under the inspiration of Russian leadership.

The saber dance

That the idea did not appeal to Ibn Saud and other leaders of the oil-rich countries, who turned down many such proposals in the past, clearly shows that Russia was fully aware of the sore-spot of conflicting interests within the Arab states. That she was using it to win favor with the oil-transporting countries, and subtly threatening the security of the oil-rich nations.

Another step in this direction was taken when Russia and Syria, under Russian direction, threatened Turkey just as the Western petroleum interests were maturing their plans for the running of a pipeline through that country to free themselves from over - dependence on Syria and the threat of new periodic demands for a greater and greater slice of oil profits.

The saber-rattling on the Turkish border accomplished its purpose, when the Western oil companies decided to definitely postpone their plans to run a pipeline link from the Persian Gulf through Iraq into Turkey.

We can therefore mark this as a master-stroke of international intrigue, for in this way Russia was cementing her position in the strategic areas of both Syria and Egypt. And for that reason the bellicose speech by Marshal Zhukov on the readiness of the Russian armies to move at an instant's notice, struck Khrushchev with a stunning blow, for it aroused second thoughts in the minds of the Arab leaders, whose subtlety and sharp wits, developed by centuries of intrigue, caused them to take a closer look at Russia's intentions and promises.

It was one thing for a Russian power-play that would further the interests of the Arab states. But the prospect of Russian domination of the entire area was quite another matter. In one fell swoop, Ibn Saud saw what domination of Syria by Russia would mean to the free marketing of his oil, and he rushed in to prevent a show-down that might have inflamed the entire (*Please turn to page* 250)

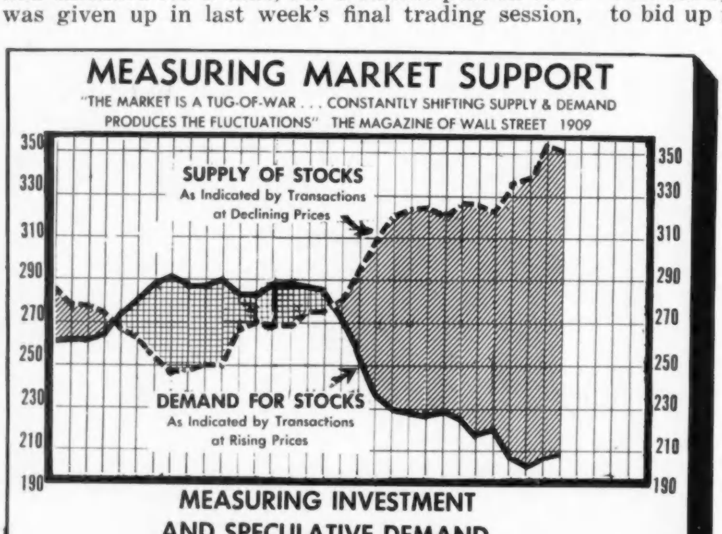
How Far Can This Market Go?

The possible significance of the market's recent rebound was at least temporarily obscured by development of pressure in the final trading session last week. It remains questionable that the full adjustment was seen at the October lows, especially in light of new uncertainties posed by Sputnik II. Continue to follow a cautious, conservative, highly selective investment policy.

By A. T. MILLER

Market sentiment took a partial turn for the better since our last previous analysis was written. The sharp fall in stock prices from the summer highs culminated, at least for the time being, in a selling climax, marked by heavy share turnover, in the trading session of October 21-22. It was followed by the most explosive one-day rebound seen in a great many years; and then by a minor three-day dip as investors and traders watched cautiously for a secondary test. With trading volume thereon low, and adequate support evident, the rally was resumed and extended for a time, but a sizable portion of it was given up in last week's final trading session, and on Monday morning.

At best recent levels the industrial average had made up about a fifth of the entire July-October decline, utilities more than a fourth, the long-laggard rail average less than one tenth. The retracement cited is well within the limits of a normal technical rebound from an over-sold position and a temporary excess of pessimism. Whether it can go further, remains to be seen. With 1958 business prospects no less dubious than they have been heretofore, and with the market by no means on a low valuation basis, reasons why investors should be willing to bid up much for stocks cannot be cited.



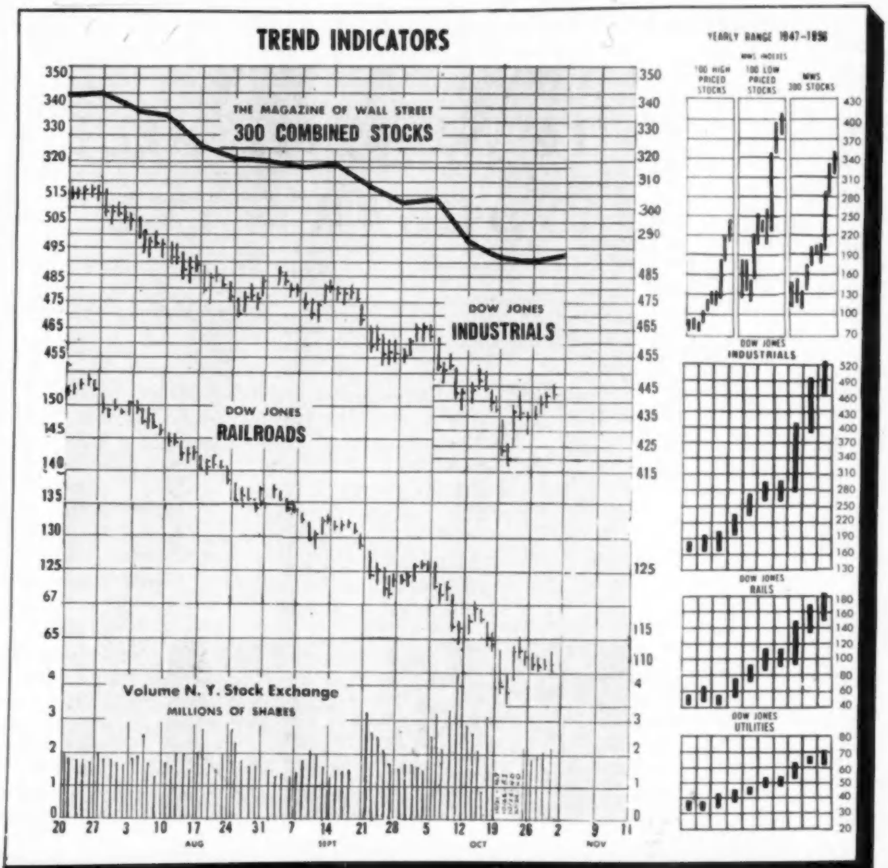
What's Ahead Now?

Barring more unpredictable shocks in the world news, there is a chance that the averages, particularly industrials and utilities, might hold above the October lows from here into the forepart of 1958. If so, and following any year-end betterment in stock prices, another look will certainly be in order. It is premature to assume that the full adjustment has been seen; and idle at this stage to try to judge how far it might ultimately go. That will depend primarily on future business and earnings trends. Our tentative thinking is that, at worst, a goodly part of it has been seen, that the sharpest phase probably has been seen, and that any extension of the downtrend should be more irregular, more orderly, more selective. Some depressed stock groups may well have bottomed out at the October lows.

There is, of course, more tax selling to come. When the market looked very bad in much of October, scaring some jittery investors into a foolish dump-everything policy, tax-sellers showed a generally greater inclination than in many years to hold the cash and defer reinvestment via switch-buying. With fears relieved by the rally, that has been less so in recent days. Unless a freshly-intensified scare psychology develops out of unpromising action at this writing, there shouuld be more tax-switching

over the rest of the year, thus limiting the net impact of tax sales on the averages.

Yet the fact remains that in the great majority of past years, and especially in bear-trend years, the market has shown more weakness than strength within the final six weeks of the year, in which period most tax selling has usually been effected. Over the last 30 years, the period's highs for the industrial list have averaged less than 1% over the best levels seen in the first half of November, while its lows have averaged about 7% under the best November 1-15 levels. Certainly there has been a good deal of early tax selling this year, but no one can figure what portion of the total has been accomplished.



Potentials for a year-end rise are always greatest when (1) the underlying trend is upward and bullish sentiment is strong; or (2) when there is enough November-December sag to set up a technical springboard for a vigorous rally. It need hardly be said that the first condition is absent. The second may or may not be established over the near term.

The latest available data show gross national product, total non-farm employment and total personal income at or around peak levels. Yet business recession is no longer an "iffy" question. In terms of industrial production, plant-equipment outlays, manufacturers' new orders and order backlogs, manufacturing employment and payrolls, railroad freight movement, and total retail sales, we are definitely in a recession. We see no room for debate excepting on how far it might go and over what period of time.

The present consensus is that it will be "mild" or "moderate"; and some economists think it should run its course by or not far beyond mid-1958. But the fact is that nobody can know.

The Federal Reserve has not yet moved to relax its tight-money, anti-inflation policy. No doubt it will gradually do so as the plain facts of recession dictate. But monetary policy, whether expansionist or restrictive, is never a perfect control; and always takes considerable time to bear fruit. With ample-excessive capacity presently the rule throughout industry, why should business managements respond promptly to credit easing, regardless of 1948-1949 or 1953-1954 experience, in their plant-equipment and inventory outlays?

Some of the "stretch" is being taken out of the stretch-out in defense spending. No doubt outlays for missiles will be enlarged; but they are no great part of total Federal spending. No major shift in aggregate government spending—Federal, state and local—is indicated. Capital goods activity is now the most decisive single key in direct and indirect effect on economic activity; and its trend is downward.

Degree of Adjustment

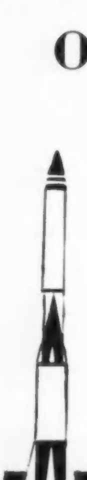
From high to low month, the 1948-1949 shrinkage in the index of production was a little over 10% in 10 months; that of 1953-1954 over 11% in 8 months. As always, the maximum shrinkage in quarterly industrial earnings was much greater in both instances than that in production. The 1948-1949 decline of the industrial stock average was 16.3%, that of 1953—13%. Assuming a similarly mild recession in this instance—which might or might not prove to be the case—was it allowed for by the July-October fall of about 20% by the industrial average?

There are two reasons which preclude a confidently affirmative answer: (1) With profit margins long under pressure, industrial earnings could shrink more on a 10% production cut than in the two previous postwar instances cited; and (2) stocks were more over-valued at the July high than at the 1948 or early-1953 highs. In short, the smaller market declines of 1948-1949 and 1953 put industrial stocks on a much higher yield basis than has a 20% fall in this instance. — Monday, November 4.

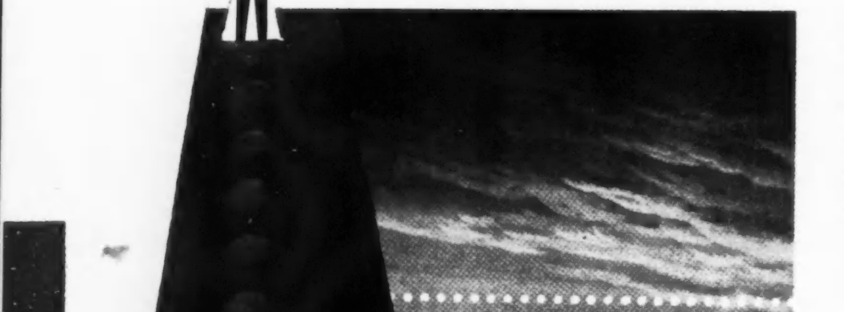
Rationalizing

IMPACT OF NEW MISSILE PROGRAM ON INDUSTRY AND TAXES

By JAMES J. BUTLER



Out of the lashing criticism that came in the wake of the appearance of Sputnik I and II as scientific achievements, if not military strokes, this hard fact has gained acceptance: America's answer to the Russian "first" will not be written promptly in terms of new billions-for-defense with outpouring of production contracts, or crash programs.



There are several reasons for this. The major one, of course, is that the United States is not ready to move into mass production of intercontinental ballistic missiles and procurement officers at the Pentagon don't intend to blow the starting whistle until they are convinced the right time has arrived. They do not intend to stockpile useless or below-par weapons, they say by way of reply to the insistent demand for speed "to overtake the Kremlin headstart."

Equally important from the practical viewpoint is that Congress must first be "sold" the wisdom of big new appropriations. President Eisenhower isn't convinced that money is the complete answer although he agrees a budgetary ceiling is not "sancrosanct," and can be pierced always within limits. The Secretary of Defense has agreed to install overtime pay scales where they do not now exist and has upped the Procurement Budget by $400 million with indication that even more may be spent in subsequent years. But among these changes in attitude towards spending is the stark fact that Rep. Clarence Cannon, (d) of Missouri, Chairman, and Rep. Daniel A. Reed, (r) of New York, minority leader on the Appropriations Committee, reject higher appropriations as a solution to the crisis.

The goal today is not to produce in mass, but to get the ICBM off the drafting board and into the air. When this objective has been met, spending might zoom; but, even then, only after it has been demonstrated that the findings are such that Uncle Sam is willing to bet his wallet on a single horse in the international race. Would science take a holiday?

What seems to be generally overlooked is that missilry research—even production—did not begin when Moscow announced the takeoff of Sputnik. The printed records of Congressional committee hearings tell the story of a constant advance over a period of more than one decade. The percentage

of defense funds allocated to missiles, out of all military procurement items, has been moving up at an accelerated pace. The new type of weaponry is found now at many installations throughout the country, and is moving today along assembly lines.

Sputnik is not the "ultimate weapon" of the military laboratories. It isn't even pictured as such by the Kremlin, although the launching mechanism is presumed to be adaptable to ICBM. The events of the past month boil down to this: Russia has established to the satisfaction of everyone that she has an extremely effective triggering apparatus, but still has to prove it could be used to send a controlled intercontinental ballistics missile to a predetermined target. What progress she has made in intermediate missiles is a fact not wrapped up in the story of Sputnik, nor is there reason to dispute President Eisenhower's suggestion that, while Russia got there first, America is on the way with a scientifically superior globe trotter. *This raises the question: Have the Kremlin scientists unveiled an eye-opening stunt, or have they reached an engineering plateau heretofore not touched?*

Realities Vs. Rumors on Missile Spending

1. Industry is not going to find "gold in them thar hills" right away; in fact, will not for some time to come.
2. Aircraft industries are not going to be put out of business overnight to make way for crash programs.
3. More money will be spent on missiles, but the *bookkeeping shifts* will be gradual.
4. Tax reduction next year was out anyway, but tax increase is not forced by Sputnik.
5. We couldn't launch a crash program if we wanted to because Congress is in no mood to raise the debt limit again (short of war).
6. Sputnik is not a weapon and whether its launching force is adaptable to weaponry is an unanswered question.
7. Contrary to notions created by the near panic of the past few weeks, we have not been asleep at the switch but probably are, as Ike suggested, ahead of Russia in the substantial elements of scientific progress toward ICBM and related weapons.
8. The military services agree financing has *not* been a delaying factor and they have not joined the clamor for unlimited funds. Science is not a mass production industry and neither the military men nor the men of science feel they owe an apology. They are on schedule, they say.

U.S. Will Provide More Information on Missiles — Not More Money

Skilled propagandists of the Moscow regime have wrung the full measure of psychological advantage out of Sputnik. One of the products has been confusion in the United States, aggravated by the introduction of partisan politics. Another result has been stepping up our own missile program, but that does not mean running hog wild on spending. From President Eisenhower on down through the Executive Branch, there is satisfaction with the progress being made when the factors of speed and scientific justification—not speed alone—are weighed. Ike says he believes it would be unnecessary and unwise to pour limitless sums into the effort. He does not regard scientific progress as a commodity available in the open market and going to the highest bidder. In this he seems to be on solid ground because the record of appropriations shows that missile research and production have been funded in approximately the amount their developers considered wise.

Instead of relying entirely on boosted spending and speeding operations, the White House is considering taking the wraps off, information-wise—telling the public more of the story of what has been kept on the q.t. for security purposes. (In view of what has happened it is bitterly ironic that we have been straining to keep missile know-how from Russia!) If the full story is told, it will reveal that the ballistics effort was slowed by order of the Pentagon several months ago. This delayed planned production rates and deliveries, put off plans for acquiring missile base sites and otherwise accomplishing a "ready" status. But it didn't slow the technological developments, except to the extent that some overtime work (since restored) was canceled.

Donald Quarles, Deputy Defense Secretary, assures "we have not allowed funds to injure the program, to the best of our knowledge." One of the first important steps taken by the new Defense Secretary, Neil H. McElroy, appears to have both form and substance: he has set himself up as central control over the missile-ballistics program, directing the Army, Navy, and Air Force to give him weekly progress reports, with special attention to threatening bottlenecks. This may serve to put an end to interservice rivalries.

There are 45 members on the House Appropriations Committee, the point of origin of all money bills. The democrats control the committee, but did not grab an overwhelming majority when they captured the House. Only two of them have been widely quoted: Chairman Cannon and Ranking Minority Member Reed. It seems obvious that there is a deal within both parties to let the top man on each side of the political aisle do the talking. And it's apparent they have talked things over between them. They frequently do.

Said Chairman Cannon: "I don't think it means that we must appropriate more money for defense, but rather that we must allocate our defense spending better. The emphasis must be on the missile programs, for which we have appropriated liberally."

Representative Taber added: "There should not be much difference between next year's defense budget and this year's. The Soviet satellite is not something to get excited about, but it should wake us up that Russia is not as backward as some people seem to think."

Defense First — Tax Relief Second

Vice President Richard M. Nixon, whose expressed viewpoints must be taken to reflect White House decisions, in major areas at least, has made significant comments since Sputnik appeared on the scene. They add up to the fact that national defense

must come before Federal Tax relief. The prospect of tax relief in 1958 has been more a political hope than a treasurer's promise, anyway; what Nixon didn't say could be the important key. He didn't make the suggestion that a balanced budget must give way to a more costly national defense program, but only forecast a fund shifting that seems to place whatever money might be available for tax relief in the general pot for national defense. President Eisenhower's next State of the Union Message (his first formal communique to Congress, in January) is not likely to be revealing on this point. He will be under political pressure not to rule out tax cuts, so it is likely that he will discuss the subject guardedly, with if's aplenty. The democrats plan introduction of a tax cut measure in any event. But it will be a gesture of protection, to insure sharing, if not claiming all, of the credit.

In the days when there was working space between the public debt and its authorized ceiling there would be safer grounds on which to base forecasts of big new defense expenditures. The ceiling is $275 billion. On Sept. 27, the debt stood at $274.2 billion. Until Jan. 15, 1958, income tax installments are counted, it will be an hour-by-hour fight to keep the debt from joining Sputnik in the outer space. And if business should slip only slightly, the result need not be described. Nothing that is in view can raise the situation above the hold-on-for-dear-life status until after March 15, 1958. Even then it is doubtful whether appropriations could be built beyond the normal, annual rise without crashing the statutory ceiling. Senator Harry F. Byrd of Virginia, vows he'll stop any move to increase the permissible public debt. And he probably can!

The debt limit problem has grown so grave that the Treasury has become "slow pay" on the books of defense contractors. Another palliative has been reduction of amounts of money the Treasury has on deposit in commercial banks—several hundred million dollars less. A third method was used when the Federal National Mortgage Association borrowed $750 million on its management and liquidation portfolio and turned it over to the Treasury in repayment for past loans. This gave the Government three-quarters of a billion dollars more, without interfering with the debt limit. Another half-billion dollars could be obtained from FNMA in the current state of its finances, the Treasury has been told.

The Treasury has been eyeing the Commodity Credit Corporation which repaid $1.2 billion to the Treasury in 1953 and 1954. It raised the money by selling commercial banks certificates of interest which represented shares in a CCC pool of price support loans.

Missiles Spending Has Not Been Neglected

Has the missiles program been neglected, appropriations-wise? The record seems to answer that. Aircraft and missiles account for more than two-thirds of the defense procurement for the four years which will be rounded out June 30. For the eight years since the outbreak of the Korean War, planes and missiles are down for 58 per cent of the procurement and production money given to the military arms.

That means distribution on the described basis, of $124.3 billion.

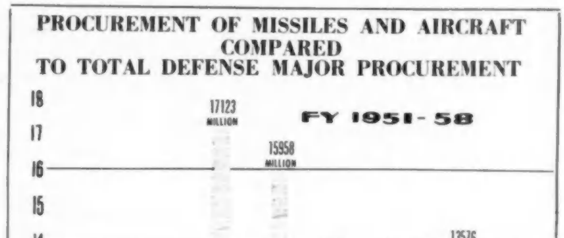
Taking a more recent period: in fiscal years 1955 through 1958, the Pentagon will have spent about $50 billion for procurement, of which aircraft will take 51.2 per cent and missiles about 16.5 per cent. Since 1950, the percentage for missiles has doubled.

It is only within the past 12 months that the military services have ripped aside the veil to give any clear idea of where it has been, where it is going in the short- and long-range defense, and, to a lesser extent, in the upper stratospheric research. The successes have far out-numbered the failures. But *both* have been reported. There have been in excess of 3200 missiles fired. Some barely got off the ground, some miscarried, one landed on the Washington-Baltimore parkway, and the casualty list adds up to one cow. Air Force rockets have reached a speed well above 8000 m.p.h.

Officially, 50 per cent of the intermediate range ballistic missile tests have been successful. The others ranged from complete failures to near misses. But the averaging is weighted against an optimistic report because everything from the earliest days is counted. The Soviet announces only its successes; it can only be speculated beyond that point. Some of the American failures proved valuable by pointing up weaknesses or helping chart new courses before too much time and money had gone into advancing an instrument that was inherently weak, say the scientists.

Industry has not been standing idly by waiting

(*Please turn to page* 236)



Where Increasing!

Where Static!

Where Declining!

By HAROLD M. EDELSTEIN

A great many durable goods producers will enter 1958 with substantial backlogs of unfilled orders, but before translating these cushions into sales and earnings, investors would do well to ponder two important questions: (1) How secure are backlogs for most companies? (2) How fast are they declining?

Of course no generalization can suffice in deciding where backlogs are secure or not, but on the whole the producers of goods with long production cycles seem to be in the best position. Shipbuilders, for example, run little risk of cancellation once keels have bene laid; and producers of power generating equipment for the ever-growing electrical utility industry appear favorably situated. But for most other groups, the time between receipt of an order and ultimate delivery to the customer can be nerve-wracking.

The nature of backlog orders (whether defense or non-defense) is also an important element in backlog security, but it would be a mistake to assume that a large reserve of unfilled orders for civilian goods is necessarily the equivalent of "money in the bank." Already this year, some slowdown in business activity has been evidenced by declines in the purchase of primary metals, steel, heavy equipment and machine tools.

It is true however, that defense backlogs are more subject to sudden shrinkage through cancellation. For confirmation one need only glance at the experience of the aircraft industry in recent months. Since the beginning of the year a combination of revised defense strategy and stringent financial policies has cut sharply into aircraft producers backlogs. In the second quarter alone, backlogs of all manufacturing companies declined almost $3 billion, largely owing to slashes in aircraft procurement, and from all indications final third quarter figures will be no better.

On a company basis, these cuts have made some exceptionally large dents in backlog positions. In 1955, for instance, **North American Aviation** received more defense contracts than any other domestic company, yet by September of this year, after cancellation of its Navaho project and the expiration of some plane contracts, unfilled orders had fallen to $650 million from a peak of $1,285 millions exactly a year earlier. As a result the company's president announced a few weeks ago that 1958 sales and earnings would be "significantly lower."

Probably aircraft industry backlogs will stabilize once the administration works out a balanced missile

and aircraft policy, but currently backlogs are weaker than in some time. **Grumman Aircraft's** unfilled order position dropped $60 million between March and June 1957; **Lockheed's** slipped $200 million from June 1956 to last June; and even **Douglas** has seen its backlog slide a half billion dollars between May 1956 and August 1957.

How Fast are Backlogs Declining

Defense cancellations in themselves would not be overly serious for the economy if new orders were filling the gaps, but a comparison of shipments and new orders indicates that total backlogs would have been on the downgrade this year, in any event. Between January and August, manufacturers shipped almost $230 billion in goods, five percent more than a year earlier, and added another half billion to finished goods inventories. New orders, on the other hand, have been moving in the opposite direction, and the drop appears to be accelerating as the year progresses, despite a period of stability during June and July. The leveling off of capital expenditures has led to a 6% decline in construction awards, industrial equipment orders have dropped almost 10% from their January peak, and machine tool buying has slowed to a walk. But with it all, the overall decline in backlogs has only been about $6 billion, and a large portion of that is attributable to cuts in the aircraft program. Nevertheless, the trend is unmistakeable and cannot continue indefinitely without leading to a slowdown in the production rates for many corporations. Undoubtedly a number of companies have maintained peak production so far this year, hoping for a resurgence in new orders. But unless an upswing materializes soon the rising cost of financing inventories, coupled with the necessary changes in long range production scheduling and materials purchasing, will force production down to levels warranted by the slackened pace of new business.

Outlook for New Orders

While it is never safe to count out an economy as dynamic as ours for long–at the moment both defense expenditures and capital expansion do not in themselves contain the powerful stimulants they provided less than a year ago. Undoubtedly many manufacturers are expecting that renewed international tension will spur greater defense outlays, but the administration shows no signs of being panicked into a "crash" missile program. Funds already allocated may be reshuffled to place heavier emphasis on missile research and production, but so far there appears to be no backtracking from the goal of holding military expenditures within the $38 billion figure laid down by the President.

As for capital expenditures, the picture is also fairly clear. At a $37.0 billion annual rate it is still exceptionally high, but its recent flattening and signs that it will soon turn down, indicate that it has lost its potency as an economic stimulant.

Furthermore, there is a third factor complicating the new order outlook–inventories. In all, durable goods producers now have stocks on hand totaling $54 billion, $4 billion more than a year ago, Almost half the increase is the result of higher prices, so that when related to the current rate of shipments, inventories do not seem dangerously high. But when measured against the rate of incoming orders a trimming of sails is indicated before the cost of carrying the inventory begins eating deeply into profits.

What is most disturbing about the current situation, despite the high backlogs still on the books, is that the full effect of this year's steadily weakening industrial demand is still to be felt, despite the softness we have already seen. Primary metals producers felt the impact early, but there are some signs that the decline in copper, lead and zinc prices has been arrested. Scrap steel, another sensitive indicator has roller-coastered this year and presently is on the way down again; and now new orders for steel have begun to fall further behind predicted rates. Even the heavy structural shapes which earlier in the year were in short supply, are no longer hard to get.

Against this background, more and more industries can be expected to follow the lead of the automobile companies in ordering on a hand-to-mouth basis, hoping in that way to avoid overstocking, and to get the maximum benefit of lower materials prices if the present price sluggishness leads to a full-scale retreat. Thus, though only a few industries have been hit hard by shrinking backlogs to date, there seems little doubt that the trend will widen out considerably in current months. How this will affect earnings for individual companies will be pointed out as we discuss various groups below, beginning with the most favorably situated.

Power Equipment Backlogs Strong

Manufacturers of heavy electrical equipment show the strongest backlog positions, fortified by a recent upturn in the rate of new orders. The field is dominated by **Westinghouse,** and **General Electric** and although neither company has released up to date figures, they both report satisfactory backlogs. **Allis Chalmers,** the next ranking producer also has a strong backlog position, but its overall situation is not comparable to that of the two giants. The company, which is also an important producer of farm and industrial equipment reported its September 30, 1957 backlog at $227 million, up $7 million from a year ago, but electrical equipment is only a fraction of the total. Furthermore the picture of backlog stability is shattered a bit when we consider that in June unfilled orders were $26 million higher than in the comparable 1956 period. New orders still exceed shipments, but the gap is obviously narrowing.

Nevertheless, a backlog of such proportions assures good production levels during the first half of 1958, although profits gains are problematical. Operations are still plagued by higher costs, and it remains to be seen whether higher prices for farm equipment can be sustained.

Among the makers of steam generating equipment, **Babcock & Wilcox** appears particularly well off. One of the largest in its field, Babcock scored a 30% sales gain in the first six months of 1957. But the record shipments did not make a dent in backlog, which at the end of June was $2 million higher than in January and at $429 million, was $60 million above the June 1956 level. Earnings improvement has been more modest because of snags resulting from continued top capacity operation, but full 1957 results should exceed $3.00 per share compared with

\$2.74 for all of 1956. In view of the high level of capital expenditures expected to be maintained by the electrical utility industry, prospects appear favorable right throgh 1958.

Combustion Engineering presents a similar picture with a July 1957 backlog at \$385 million, modestly above the year-end figure. Sales advanced 40% in the first half, but net receded slightly as heavy start-up expenses of new facilities were absorbed. For the full year, however, a slight improvement is expected over the \$2.04 earned in 1956, and margins should widen in 1958.

Transportation Equipment Trends Mixed

Foster Wheeler, on the other hand, despite a 60% rise in shipments in the first half, and a backlog that soared to \$372 million from \$214 million a year earlier, may have some difficulties with cancellations in 1958. Only a small percentage of shipments are to the utility industry, the oil producers being the principal outlet for the company's generating equipment. In spite of good inroads made in the atomic energy field, uncertainties in the petroleum industry take some of the lustre from the company's position and cast some doubts on future earnings for this volatile performer.

The major shipbuilders are still riding the crest of huge backlogs, and the long production cycle assures good billings for at least a year or two. In June **Bethlehem Steel** reported a shipbuilding backlog of \$656 million, equal to half its total unfilled order position. **Newport News,** second to Bethlehem in size has a \$345 million backlog, up from \$200 million a year ago and is the top candidate for a \$314 million atomic-powered aircraft carrier contract. With billings running over 40% ahead of last year, earnings of \$8 per share are probable compared to \$4.25 in 1956.

Bath Iron Works, the Navy's principal destroyer

Value of Manufacturers' Sales, Orders and Backlogs

	1956	1957			
SALES: Seasonally Adjusted	Aug.	May	June	July(r)	Aug.(p)
All manufacturing industries	27,588	28,617	28,142	29,030	28,571
Durable-goods industries	13,723	14,296	14,207	14,573	14,184
Primary metal	2,144	2,263	2,289	2,447	2,331
Fabricated metal	1,503	1,562	1,492	1,605	1,532
Machinery	4,143	4,354	4,259	4,447	4,235
Electrical	1,694	1,833	1,763	1,890	1,756
Nonelectrical	2,449	2,521	2,496	2,557	2,479
Transportation equipment	2,912	3,276	3,241	3,251	3,380
Motor vehicles & parts	1,791	2,058	1,963	1,990	2,134
Other trans. equip.	1,121	1,218	1,278	1,261	1,246
Lumber and furniture	1,150	978	1,076	957	921
Stone, clay and glass	751	747	741	736	739
Other durable goods[a]	1,120	1,116	1,109	1,130	1,045
Nondurable-goods industries	13,865	14,321	13,935	14,457	14,387
Food and beverage	4,182	4,340	4,183	4,323	4,375
Tobacco	328	352	382	375	348
Textile	1,128	1,079	1,063	1,089	1,074
Paper	891	907	877	896	907
Chemical	1,931	1,996	1,894	2,008	2,054
Petroleum and coal	2,671	2,959	2,780	2,991	2,895
Rubber	467	481	458	514	n.a.
Other nondurable goods[b]	2,267	2,207	2,298	2,261	2,220
NEW ORDERS: Seasonally Adjusted					
All manufacturing industries	31,078	28,433	27,055	27,276	27,200
Durable-goods industries	17,342	14,115	13,249	13,005	13,060
Primary metal	2,460	2,136	2,306	2,241	2,033
Fabricated metal	1,491	1,689	1,486	1,522	1,338
Machinery	4,360	4,321	4,103	4,065	4,203
Electrical	1,778	1,979	1,921	1,689	1,873
Nonelectrical	2,582	2,342	2,182	2,376	2,330
Transportation equipment[1]	5,981	3,198	2,544	2,396	2,786
Other durable goods[2]	3,050	2,771	2,810	2,781	2,700
Nondurable- goods industries	13,736	14,318	13,806	14,271	14,140
With unfilled orders[3]	3,163	3,191	2,970	2,936	2,871
Other nondurable goods[4]	10,573	11,127	10,836	11,335	11,269
UNFILLED ORDERS: NOT Seasonally Adjusted					
All manufacturing industries	64,056	61,069	60,329	59,288	57,767
Durable-goods industries	60,831	58,038	57,164	56,146	54,838
Primary metal	7,453	6,597	6,330	6,200	5,986
Fabricated metal	4,638	4,408	4,283	4,314	4,102
Machinery	19,914	19,642	19,695	19,629	19,523
Electrical	9,599	9,767	10,076	10,106	10,159
Nonelectrical	10,315	9,875	9,619	9,523	9,364
Transportation equipment[2]	23,415	22,638	22,060	21,123	20,427
Other durable goods[3]	5,411	4,753	4,796	4,880	4,800
Nondurable-goods industries[4]	3,225	3,031	3,165	3,142	2,929

n.a.—Not available.
[a]—Includes ornance, professional and scientific instruments and miscellaneous.
[b]—Includes apparel, leather, and printing and publishing.
[1]—End of period.
[2]—Includes motor vehicles.
[3]—Includes professional and scientific instruments, lumber, furniture, stone, clay and glass, and miscellaneous.
[4]—Includes textile, leather, paper, and printing and publishing.
(r)—Revised.
(p)—Preliminary.

Order Backlog Trends for 37 Companies

	Current Backlog (Mil.)	Date	Sales 1956 (Millions)	Previous Backlog (Millions)	Date	Sales 9 Months 1957 (Mil.)	1956 Earnings Per Share	1956 Div. Per Share	1957 1st 9 Months Earnings Per Share	1957 Indicated Full Year Div.	Price Range 1956-57	Recent Price
ACF Industries	$191.0	4/30/57	$294.5[1]	$227.0	4/30/56	$81 .0[3]	$5.39[1]	$4.00	$1.75[3]	$4.00	67⅞-39¼	45
Alco Products	108.0	7/23/57	170.3	54.0	7/23/56	122.4	2.11	1.00	.81	1.00	23⅞-11⅞	13
Allis-Chalmers	227.0	9/30/57	547.4	220.0	9/30/56	419.3	2.42	2.00	1.76	2.00	37⅜-24⅞	26
Amer. Bosch Arma	300.0	3/31/57	122.2	195.0	3/31/56	69.0[4]	2.55	1.00[7]	1.56[4]	1.00	27 -16⅛	19
Amer. Machine & Fdy.	88.8	6/30/57	175.2	88.2	6/30/56	125.9[4]	3.00	1.05[7]	1.82[4]	1.20	43¾-24¼	32
Amer. Machine & Metals	22.0	3/31/57	39.5	19.5	3/31/56	21.9[4]	5.83	2.60	3.15[4]	2.90	58¾-35⅛	44
Amer. Steel Foundry	59.0	6/30/57	117.1	60.0	6/30/56	92.1[5]	6.52	2.40[7]	4.76[5]	2.90	54 -29⅞	32
Babcock & Wilcox	428.7	6/30/57	281.4	427.2	6/30/56	181.4[4]	2.74	1.00[7]	1.46[4]	1.00[7]	47½-29	32
Beech Aircraft	107.0	10/ 9/57	74.5[2]	112.5	12/30/57	75.6[5]	4.05	1.20	3.01[5]	1.20[7]	31¼-15¾	17
Blaw-Knox	178.0	6/30/57	167.0	153.0	1/ 1/57	89.0[4]	4.16	1.20[7]	2.20[4]	1.20	46¾-22⅛	26
Bliss (E. W.) Co.	40.0	6/30/57	85.8	48.4	3/31/57	39.9[4]	3.01	2.00	1.58[4]	2.00	32¼-17¾	20
Boeing Airplane	2,837.0	6/30/57	1,006.3	2,848.0	3/31/57	651.8[4]	4.82	1.25[7]	2.47[4]	1.00	65⅜-29	31
Bucyrus Erie	19.9	6/30/57	86.5	28.4	6/30/57	50.2[4]	3.64	2.40	1.77[4]	2.00	56¾-29¼	31
Carrier Corp.	122.0	7/31/57	193.1	81.5	6/30/56	193.9[6]	5.26	2.40	2.40[6]	2.40	65¼-33½	37
Chance Vought	467.0	6/30/57	118.1	267.0	6/30/56	86.0[4]	3.81	1.60	1.95[4]	1.60	49¼-20⅝	24
Cinn. Milling Machine	81.0	6/15/57	102.6	94.0	3/31/57	79.3[4]	4.64	1.60	2.55[4]	1.60	55¼-33¼	34
Combustion Eng.	385.0	7/31/57	169.0	384.0	12/31/56	105.4[4]	2.04	1.06	1.09[4]	1.12	34⅜-20¼	22
Douglas Aircraft	1,905.0	8/31/57	1,073.5	2,414.0	5/31/56	828.4	8.96	4.00	6.67	4.00	95⅛-50⅝	60
Dresser Industries	80.0	7/31/57	230.2	70.4	7/31/56	198.5[6]	3.97	1.51	3.27[6]	1.80	57¾-24⅞	40
Ex-Cell-O Corp.	104.0	8/31/57	150.2	110.0	6/30/57	129.9	4.01	1.00	3.21	1.25	51¾-29⅛	32
Fairbanks, Morse	41.2	5/51/57	134.9	53.4	5/31/56	65.1	2.81	1.40	1.35	1.65	65 -38⅛	41
Food Machy. & Chem.	62.5	6/30/57	293.7	94.1	6/30/56	166.0[4]	4.72	2.00	2.65[4]	2.00	77 -42¾	48
Foster Wheeler	372.2	6/30/57	100.6	214.1	6/30/56	75.4[4]	1.80	1.60	1.84[4]	1.60	67¾-30¼	39
Gen. Amer. Transp.	99.0	8/15/57	100.3	110.0	1/ 1/57	103.3[4]	5.71	3.15	3.21[4]	3.60	88 -60¼	73
General Dynamics	1,989.0	6/30/57	1,047.8	2,195.0	12/31/56	726.0[4]	4.14	1.60	2.32[4]	2.00	68⅝-37¾	50
Gen. Precision Equip.	165.6	6/30/57	153.2	167.6	12/31/56	93.3[4]	1.63	2.40	2.10[4]	2.40	53½-30¼	32
Grumman Air. Eng.	230.9	6/30/57	197.5	296.2	3/31/57	90.6[4]	3.50	2.00	.97[4]	2.00	35⅞-15¼	17
Int. Tel. & Tel.	468.0	6/30/57	501.4	459.0	6/30/56	318.8[4]	3.92	1.70	1.81[4]	1.80	37¾-25¾	27
Koppers Co.	182.1	6/30/57	305.6	161.9	6/30/56	151.8[4]	5.01	2.50	2.03[4]	2.50	74½-38	40
Newp. News Ship. & D.D.	344.6	6/24/57	79.9	200.8	6/24/56	81.6[4]	4.25	2.50	3.88[4]	3.00	87½-50	74
N. Y. Air Brake	15.2	9/30/57	49.0	22.0	12/31/56	36.3	2.56	1.60	2.39	1.60	33⅜-19¾	21
North Amer. Aviation	650.0	9/18/57	913.9[2]	1,285.0	9/18/56	937.0[5]	3.59[2]	1.92	3.32[5]	2.00	49⅞-20⅛	22
Otis Elevator	207.0	6/30/57	135.8	179.1	6/30/56	n.a.	3.10	1.95	2.31	2.00	50¾-33¼	39.
Pullman Inc.	350.0	5/1/57	364.3	350.9	12/31/56	315.6	5.71	4.00	4.98	4.00	74¼-50	54
United Aircraft	2,050.0	6/30/57	954.3	2,100.0	6/30/56	604.2[4]	7.06	3.00	4.80[4]	3.00	96½-50⅜	52
United Eng. & Fdy.	118.0	4/23/57	62.6	103.0	4/23/56	41.0[4]	1.28	.80	1.10[4]	.90	16⅞-12⅝	13
Westing. Air Brake	112.0	3/31/57	214.6	96.3	3/31/56	186.0	2.86	1.20	2.38	1.20	36⅜-20	22

n.a.—Not available.
[1]—Year ended 4/30/57.
[2]—Year ended 9/30/57.
[3]—Quarter ended July 31, 1957.
[4]—First 6 months.
[5]—9 months ended 6/30/57.
[6]—9 months ended 7/31/57.
[7]—Plus stock.

contractor sits atop a $130 million backlog and seems assured of good production levels well ahead. The company's favorable situation was the subject of a separate study in the July 6, 1957 issue of the Magazine of Wall Street.

Railway equipment producers are also maintaining high backlogs, but the peak inflow of new orders appears over. By the end of September the number of cars on order, but undelivered, had receded to 72,000 compared with over 122,000 a year earlier, and monthly comparisons of new order figures are running substantially below last year. Nevertheless, unless there is a sudden wave of cancellations, the major producers are in good condition, although some units may be forced to lower production rates if the new orders continue to drop.

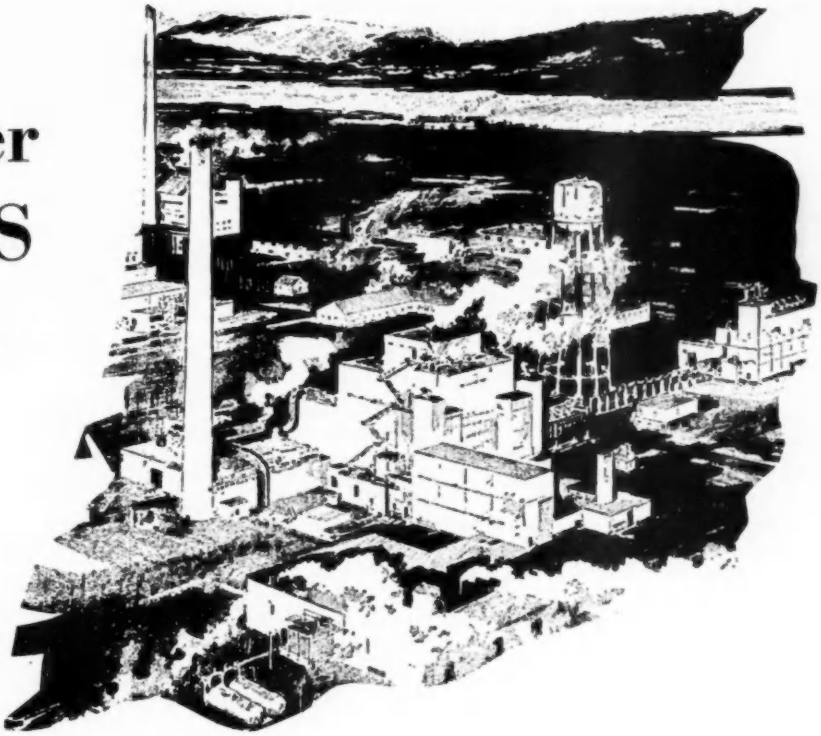
Pullman, the nation's largest railway car builder has had a small decline in unfilled orders as shipments continue at the 1956 pace. Earnings have been aided by better performance in the engineering and construction divisions and profits should advance to almost $6.50 per share this year, as over one hundred additional passenger cars are scheduled for late 1957 delivery. But with backlog declining, 1958 results will depend more on other activities, and with construction slowing down and the outlook for truck trailers less favorable for the Trailermobile Division, the company will be hard put to make a comparable earnings record in 1958.

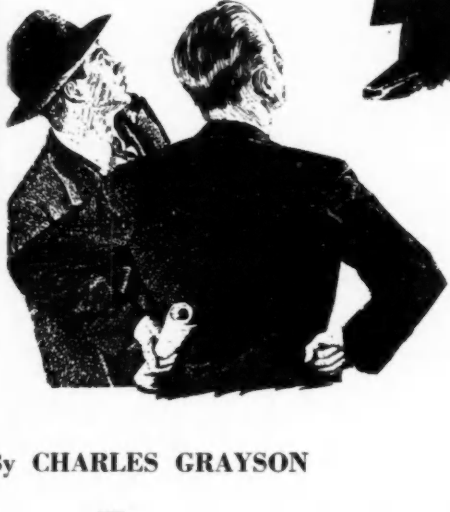
General American Transportation reported a 10% drop in backlog between January and August, principally because of stepped up freight car shipments and a lower rate of incoming orders for its plastic division. Still, at $99 million, unfilled orders should continue to augment revenues from car rentals, the company's basic and most important business. Since most rental contracts are on a long term basis, lower carloadings should have small effect on service revenues, and with other activities contributing importantly to earnings, stable profits at about the current $7 per share rate seem in the offing.

ACF Industries, the nation's second largest railway car builder reported an April 30, 1957 backlog of $191 million compared with $227 million a year earlier. Although unfilled orders are still high, subsequent earnings will depend on diversified activities. In the year ending April 30, sales advanced to $294 million from $245 million in 1956, and earnings rose to $6.39 per share from $6.08, but for 1958, auto parts sales, and the more vulnerable electronic and missile components business will hold the key. In view of the growing trend toward component production by the prime missile contactors themselves, some production cutbacks (*Please turn to page* 238)

What 3rd Quarter EARNINGS REVEAL

PART II





—*Looking to 1958*

By **CHARLES GRAYSON**

Third quarter earnings reports now appearing in increasing volume are following the pattern discernible in the first and second quarters of the year. In general, sales are up, profit margins are lower and net income for most companies is neither up nor down significantly from a comparable period a year ago. In a few instances such as in steel, per share earnings are sharply better when compared against last year's strike-bound third quarter—and conversely, cement company earnings make unfavorable comparisons owing to the prolonged industry strike this year.

Nevertheless, viewed in themselves, corporate profits stand up pretty well against last year's. In each of the first two quarters aggregate earnings ran ahead of the similar periods of 1956 and the same thing will probably be true for the third quarter, largely as a result of better steel earnings. Whether the over-all betterment carries through to the fourth quarter, however, seems doubtful, since the last period of 1956 had the benefits of some particularly powerful stimulants. Steel and auto production, as well as equipment manufacturing ran at full steam then, trying to make up for lost production during the steel strike—and the oil industry was extending itself enormously to feed petroleum to a fuel-starved Western Europe during the Suez crisis.

But regardless of whether full-year aggregate profits are better or worse than 1956, the trend seems clear. Sales volume is still high, but is slowing down, and with markets becoming increasily competitive, producers are having greater difficulty in passing along cost increases to their customers. As a result, rising sales volume no longer necessarily means higher profits—a fact which is well illustrated by the experience of the chemical companies so far this year. Dollar sales of most companies advanced handsomely over last year, but the profits squeeze resulting from increasing competition has led to lower margins, and aggregate earnings for the industry as a whole are falling short of last year's levels, although performances vary widely from company to company.

That even the giants are affected, is clearly underscored by an examination of the recently released report of **Union Carbide Corporation**, one of the industry's leaders. While a small increase in third quarter net income was achieved by Carbide, it is noteworthy

Quarterly Income Account Comparison of Industrial Companies

	3rd Quarter 1957			2nd Quarter 1957			1st Quarter 1957			3rd Quarter 1956		
	Net Sales (Mil.)	Net Profit Margin	Net Per Share	Net Sales (Mil.)	Net Profit Margin	Net Per Share	Net Sales (Mil.)	Net Profit Margin	Net Per Share	Net Sales (Mil.)	Net Profit Margin	Net Per Share
Air Reduction	$ 47.8	8.7%	$1.10	$ 46.8	8.3%	$1.02	$ 46.2	9.3%	$1.16	$ 40.9	9.0%	$1.00
Allegheny Ludlum Steel	60.2	3.2	.51	72.4	4.0	.77	81.2	5.9	1.25	48.8	1.1	.15
Allis-Chalmers	133.5	2.6	.41	147.8	4.1	.74	137.9	3.7	.61	137.9	2.7	.46
American Airlines	79.8	4.0	.40	81.3	5.6	.55	70.7	1.5	.12	77.2	7.7	.76
American Cyanamid	133.0	9.8	.61	127.0	8.3	.49	132.1	9.9	.62	122.0	8.5	.50
Caterpillar Tractor	160.5	6.1	1.08	185.3	6.8	1.40	186.6	7.8	1.60	161.9	8.3	1.49
Chrysler	684.7	2.0	1.59	910.3	4.7	4.95	1,150.7	4.0	5.34	429.6	d2.9	......
Consolidated Edison, N. Y.	127.4	8.7	.64	134.6	10.1	.82	152.5	12.4	1.21	119.0	8.0	.53
Continental Can	312.5	4.6	1.26	271.0	4.5	1.06	221.5	3.2	.62	295.4	4.6	1.19
Douglas Aircraft	262.8	3.0	2.17	294.2	2.6	2.13	271.3	3.2	2.72	258.2	3.0	2.10
Du Pont	499.0	.....	2.13	505.0	20.2	2.19	509.4	19.4	2.12	465.0	19.9	1.99
Eastman Kodak	193.4[1]	13.1	1.32[1]	184.8[1]	12.2	1.17[1]	163.0[1]	10.8	.92[1]	175.5[1]	12.6	1.21[1]
Eaton Mfg.	49.0	3.8	1.03	62.9	5.6	1.92	58.5	5.2	1.66	45.0	3.4	.85
Freeport Sulphur	......	.....	1.21	......	.....	1.39	......	.....	1.27	......	.....	1.32
General Motors	2,320.5	5.2	.43	2,837.4	7.7	.78	3,076.9	8.4	.93	2,275.4	6.0	.48
Gillette	57.4	12.8	.79	47.6	12.6	.65	46.1	15.1	.75	50.7	13.1	.72
Gulf Oil	......	.....	2.51	......	.....	3.60	......	.....	3.20	......	.....	2.44
Industrial Rayon	12.2	d3.7	d.25	13.4	3.4	.26	17.5	5.3	.50	13.1	4.7	.34
Inland Steel	184.5	7.2	2.35	203.1	7.4	2.68	203.6	7.1	2.59	140.6	4.6	1.17
Johns-Manville	85.5	6.7	.80	82.4	6.8	.79	65.6	4.5	.41	81.4	8.5	1.08
Jones & Laughlin Steel	218.4	5.2	1.46	228.3	6.0	1.85	203.9	6.2	1.89	129.2	1.0	.16
Libbey-Owens-Ford Glass	49.9	7.8	.75	......	.....	1.16	......	.....	1.58	55.2	8.3	.89
Liggett & Myers Tobacco	145.9	5.4	1.92	156.0	5.0	1.91	132.5	4.8	1.29	147.9	4.9	1.77
Lorillard (P.) Co.	85.2	3.5	1.02	56.5	2.7	.48	48.1	2.4	.36	51.8	1.05	.23
Minneapolis Honeywell Reg.	76.3	5.4	.60	81.8	6.1	.76	76.3	6.8	.79	69.8	7.1	.76
Nat. Distillers & Chemical	127.6	4.1	.55	118.3	4.3	.54	146.5	3.4	.53	123.9	3.5	.46
National Lead	135.5	9.3	1.04	133.8	11.4	1.27	147.9	10.0	1.22	138.4	9.1	1.05
Parke, Davis & Co.	41.7	14.6	1.24	38.1	14.3	1.12	37.7	14.8	1.14	32.1	11.1	.73
Penn-Dixie Cement	13.1	13.7	.64	10.6	9.2	.35	6.7	9.7	.23	16.1	18.1	1.10
Pennsalt Chemicals	20.5	3.1	.50	21.6	4.2	.72	19.1	5.4	.81	17.7	5.5	.63
Phillips Petroleum	282.9	7.3	.61	276.7	9.0	.73	296.1	9.5	.83	252.1	7.9	.58
Pittsburgh Consolid. Coal	87.6	6.9	.66	93.8	7.2	.74	96.2	6.5	.68	74.3	6.4	.52
Pittsburgh Plate Glass	160.5	8.9	1.45	160.1	10.0	1.62	150.9	8.7	1.34	146.0	8.5	1.27
Pullman, Inc.	111.2	3.3	1.67	113.0	4.3	2.20	91.2	2.7	1.12	70.8	3.1	1.01
Rayonier	29.3	3.5	.19	29.9	6.4	.35	30.0	6.5	.36	33.4	9.1	.58
Republic Steel	275.6	7.3	1.29	338.2	7.3	1.60	354.4	7.9	1.81	201.8	2.1	.28
Reynolds Metals	114.9	7.9	.79	111.7	7.7	.75	105.1	9.4	.94	91.5	7.3	.59
St. Regis Paper	93.9	5.1	.50	88.2	5.3	.60	85.3	6.0	.65	97.2	6.4	.66
Schering Corp.	19.4	17.0	.81	35.8	15.7	1.38	15.0	16.0	1.37	17.4	19.4	.83
Scott Paper	65.2	7.7	.53	69.6	7.8	.68	69.8	7.6	.66	66.6	7.6	.63
Standard Brands	131.0	2.5	.96	126.1	2.5	.95	129.3	2.7	1.05	123.5	2.3	.81
Sylvania Electric Products	89.3	4.3	1.07	74.9	2.3	.46	87.5	3.5	.84	83.7	4.9	1.16
Thompson Products	88.1	2.5	.78	99.1	4.3	1.52	96.8	4.1	1.44	71.8	3.7	.95
Union Carbide Corp.	355.5	9.5	1.13	329.0	10.3	1.13	351.3	10.9	1.18	331.2	11.3	1.12
U.S. Gypsum	70.1	16.1	1.39	64.2	16.4	1.31	56.2	14.6	1.01	70.3	15.6	1.36
White Motor	61.7	2.5	1.50	55.7	2.7	1.47	54.0	3.4	1.79	44.8	3.2	1.40
Youngstown Sh. & Tube	170.3	5.8	2.83	176.7	6.3	3.29	190.2	5.5	3.09	111.6	3.0	.99

d—Deficit. [1]—12 Weeks.

that this served only to halt a downward trend in earnings which had marked the first six months operations. For the full nine months through September net income of Union Carbide dropped below last year's levels, despite a hike in sales of 8% in the nine months period and 7% in the third quarter. More specifically, net profits for the third quarter of this year equalled $34 million or $1.13 a share, compared with net income in the like period of 1956 of $33.6 million or $1.12 a share a year ago. In the first nine months of this year, while sales advanced to almost $1.1 billion from last year's $971 million, net income declined to $103.6 million or $3.44 a share from last year's $106.4 million, which was equal to $3.54 a share. Of course there were sound reasons for this decline in profits, but the fact remains clear that rising sales volume has ceased to be the magic ingredient for betters news to stockholders.

It should be noted, finally, that the prospects of the chemical industry for 1958 are for another keenly competitive year. Capacity is very ample in almost all lines, and should current weakness in general business conditions deepen to any extent, there will doubtlessly be further downward pressure on chemical profits margins with a resultant decline in reported earnings.

E. I. du Pont de Nemours & Company, on the other hand, recently released a glowing third quarter report which indicates that profits betterment is still possible in the industry. Earnings for the September quarter pushed to $2.13 a share, compared with last year's $1.99. Third quarter sales were also at a new record for any similar three months, and aggregated $499 million, $34 million ahead of the like period in 1956. It is particularly noteworthy that the $1.51 a share from company operations contributed to this year's total third quarter profits was ahead of the $1.36 in the same period last year, while dividends on General Motors stockholdings remained virtually unchanged. What is more, for the first nine months of this year, du Pont achieved the highest sales and earnings for any similar period in its history. Profits during this period reached a new high of $6.44 a share, compared with $6 in 1956. Of these total earnings, $4.53 a share was derived from operating activities, while $1.91 a share came from dividends on the company's General Motors stock; here again the advance was achieved solely in the company's operations, which contributed $4.01 a share last year, while General Motors dividends remained unchanged at $1.91 a share. Sales for the first nine months rose 7% to almost $1.5 billion, up from the $1.4 billion volume for the three quarter period in 1956.

In other industries there is further evidence of the bumpy road for profit margins in the third quarter report of **General Motors Corporation.** Net profits of the corporation for the first nine months of this year were 5.8% lower than in the same period last year, despite an increase in sales better than 1% this year, which in fact were exceeded only by the record set in the first nine months of 1955. The recently released third quarter earnings report served to underscore a declining profit margin as earnings dropped 11% below last year's volume despite a 2% rise in sales. More specifically, net income of the world's largest manufacturing enterprise aggregated $603.4 million in the first nine months of this year, after providing an unbelievable $619.6 million in taxes. This income was equal to $2.14 a share compared with last year's $2.28 a share. Sales for the first nine months of this year climbed to $8.2 billion, some $91 million ahead of the like period last year. General Motors' solid and broad base of business is underscored by the fact that almost $8 billion of total sales represented civilian business. Net income for the third quarter which, it should be pointed out, is generally the lowest of the year, was $122 million or 43 cents a common share compared with last year's $136 million, which amounted to 48 cents a share. Third quarter sales were $2.3 billion.

Increased Efficiency Pays Off For Some Producers

It is interesting to note that while not all of the nation's industrial giants have been able to report favorable comparisons with last year, a number, such as the aforementioned du Pont, have been able to maintain consistently high profit margins. But of greater significance than the du Pont showing is that of **United States Gypsum,** the largest company in its field, supplying the nation with almost half of its total gypsum requirements. In the first half of the year, while sales were slipping by 12%, largely because of the slowing down in new housing starts, increased efficiency held the drop in net income to a $9\frac{1}{2}$% decline. By the end of the third quarter, however, the company was able to reverse the earnings slippage, and although sales receded slightly to $70.1 million from $70.3 million a year ago, profit margins rose from 15.6% to 16.1%, and per share earnings from $1.36 to $1.39.

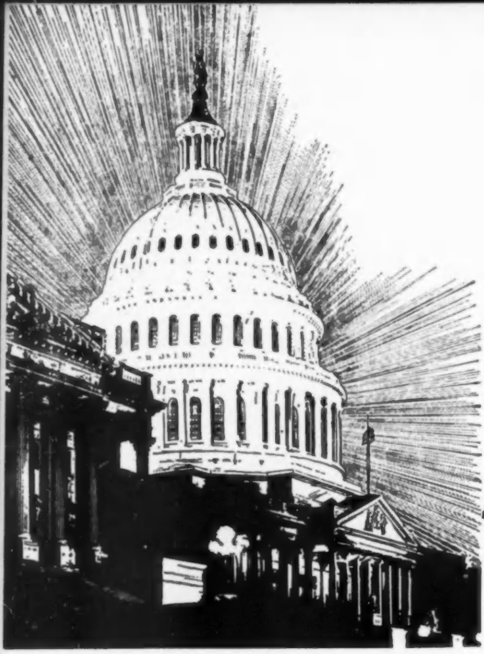
National Lead also proved equal to the task of maintaining earnings, reporting $1.04 per share against $1.05 the third quarter of last year, despite a modest sales drop.

Increased efficiency, however, and the ability to maintain better profit margins is not confined solely to industrial giants. **National Distillers,** which has been steadily reducing its dependence on liquor and has been concentrating its efforts in chemical and metallurgical fields, raised its third quarter earnings from $.46 in 1956 to $.55 this year, on a small sales increase, but a profit margin improvement from $3\frac{1}{2}$% to 4.1%. Similarly, **American Cyanamid** reflected the increased efficiency in its pharmaceutical divisions, by raising its margins from $8\frac{1}{2}$% to 9.8%, and its per share net from $.50 to $.61 in the third quarter.

Margins Off Sharply In Some Industries

But in most instances, the declining profit margin picture is pretty clear, and is, of course, most serious in the more depressed industries. The AIRLINES, for example, are one of the groups most severely affected by burgeoning costs and competition. Rising revenues pose no difficulty, and as a matter of fact will set an industry-wide all-time peak this year—and the trend should not be interrupted even if general business should experience a set-back in the coming months. The net income picture is another matter, however. The costs of obsolescence of equipment, the break-in expense of integrating new planes into operations, elaborate maintenance facilities and the prolonged period of training for crews all eat severely into profits.

Typical of the industry's plight is **American Airlines,** which is not alone in reporting sharply lowered profits for the third quarter, as well as the first nine months of the year, (*Please turn to page* 240)



Inside Washington

By "VERITAS"

LEGISLATIVE actions revising the Philippine foreign investments act to attract more United States capital are promised by President Carlos P. Garcia, candidate to succeed himself in the Nov. 12 election in which it is predicted he will garner 75 per cent of the vote in a 7-way contest. The statutes will continue to protect industries "territories" already exploited by the Filipinos or involving national security. Joint ventures involving local and foreign capital will be encouraged.

> ### WASHINGTON SEES:
>
> One of the most meaningful developments in organized labor since the merger of AFL and CIO is the decision of the Brotherhood of Railroad Trainmen to affiliate with the merged organizations. This will increase AFL-CIO membership by about 166,000. Important as that is, it is relatively inconsequential when compared to the lift it will give to the principle of clean unionism.
>
> BRT has a deserved reputation for honesty and square dealing both in its internal operations and in its relations with management. It is significant that the Brotherhood picks this crossroads in the life of trade unionism in the United States to make a choice which means abandoning an autonomy enjoyed for three-quarters of a century. It sets an example that probably will be followed by the two rail operating brotherhoods still outside the AFL-CIO family.
>
> The trainmen have gone it alone for a long time and the query naturally arsises: Why change now? The answer seems to be a simple one. If the big amalgamated unions find it necessary to expel the Teamsters' Union, it will be a sacrifice in numerical and financial strength in the cause of decency. The BRT senses that this would give Jimmy Hoffa and his henchmen the excuse they desire to band outlaw and fringe unions together, creating a potent force for harm. But Hoffa tipped his hand at the McClellan hearings, and BRT has been quick to accept the challenge, throw up a barricade.

FOREIGN AID to the Philippines (which means dollars from the United States) is being re-appraised. Miguel Cuaderno, Governor of the Philippine Central Bank, has sounded the warning note that financial aid from abroad will not be forthcoming in amounts sufficient for undeveloped countries and has cautioned it would be "illusory" to expect it and plan accordingly. But independence in the Islands is relatively new—11 years; fear that large-scale entry of foreign capital might dominate the economy is deep-rooted and understandable. But President Garcia explains: "There is no hard-and-fast rule; it will be governed at all times by prevailing conditions."

BANKERS are on strike for higher wages, AFL-CIO asserts in a charge grounded on this situation: "Last February, investment bankers bought $20 million of Missouri state government bonds paying 2⅜ per cent interest. The bankers were glad to get the bonds, the first issued by Missouri in 20 years, and regarded as 'prestige bonds carrying Triple-A rating.' Recently the Missouri government offered $30 million more bonds at higher interest rate, 3 per cent. No bids were received from bankers. Thus, as matters stand now, the bankers are 'striking' for higher pay. Doubtless most of these bankers think it is wrong for workers to strike for more pay."

MODERN REPUBLICANISM has suffered another setback. Its prime prelate, Arthur Larson has been kicked upstairs via appointment as an advisor to President Eisenhower. George V. Allen, Ambassador to Greece, is successor. Allen has no ideas for making the GOP over. He has been able to get along with Congress and has been helpful in preserving the outline, at least, of bi-partisan foreign policy.

As We Go To Press

▶ The Administration's foreign economic advisers are troubled to the point of frustration by the task of attempting to divide available aid funds among many claimants. They're keeping a running account of their experiences in the expectation that this will furnish weighty argument for greater allowances in the next budget. If it be true that the United States lost nothing more than face in the satellite experience, then it's true that the disbursers of foreign aid were more direct victims: Soviet propaganda has made it more difficult to reject, or delay, assistance to any country which shows signs of weakening in its alliance with the western democracies. How many nations are in that mood isn't readily ascertainable. The disease spreads slowly.

▶ Whatever may be said of the fight President Eisenhower made to save other parts of his budget, it is quite clear that he went all the way for foreign aid. Had a few months delay been possible, the result might have been somewhat different: not even the White House could know what was ahead. India asks the largest slice, and is doomed to disappointment. The five-year plan on which that nation has embarked rounds out in 1961; she'll need from $800 million to $1.1 billion in United States loans, says her financial agents. The money isn't available. Without doubt there will be an attempt at the next Congressional session to dig it up, but the results are in doubt. India is the free world's biggest stake in Asia; its loss would be incalculable.

▶ Facing President Eisenhower for early decision therefore is the question whether Congress shall be asked to make the funds available, either specifically earmarked to India or in an enlarged foreign aid appropriation. The Bureau of the Budget is holding open this page of the estimates for Fiscal 1958. The problem cannot be considered apart from other loan considerations, each of them carrying major implications. Yugoslavia is in again with its aid request. Whether Poland should be assisted and to what extent, is an unanswered question. There will be strong resistance (probably ineffective) to further aid for Yugoslavia. Aid to Poland will fire a spirit of emotionalism that will make it difficult to keep expenditures in any semblance of balance: Congress is as likely to bellow "No!" as it is to roar "Yes!" The proposition will be debated on the point of who benefits, the Polish people or the Communists?

▶ Overhaul of the system with a view to writing new rules seems indicated. It isn't a simple question of whether to aid friendly countries, and in what amount. That's only part of it. The problems arise when commitments are made without always preparing to meet them. For example, the British decision last month to draw on a previously negotiated loan of $500 million from the Export-Import Bank. Britain acted within its rights and its agreement. But wasn't expected to call for the money. The United States has explicitly or by inference made many economic, political and military commitments. If the calls come simultaneously, something has to give!

▶ Subscription television, a system under which the home set owner drops money in a coin-box or is billed for programs beamed over channels specially allocated by the Federal Communications Commission, has been advanced by issuance of standards of qualification. If the idea catches on, it will revolutionize the motion picture business in particular, show business to a lesser extent, and sports exhibition importantly. One of the FCC Commissioners, Robert T. Bartley, dissented when the vote was taken to authorize three-year experimental pay-TV. He hinted he doesn't believe broadcasters will be interested in investing on the basis the government proposes. He could be right.

▶ The new form has much to commend it. The Senate Interstate Commerce Committee thought so after prolonged hearings, and so did the FCC Commissioners with the

exception of Bartley. Pay-TV was advocated as a relief from frequent, boring, and insipid commercials. It would bring first-run motion pictures, Broadway productions, ballet and other art forms into the family circle; it would make it possible to view championship fights without paying $3 or more to attend closed circuit broadcasts in theaters -- all for a few coins in the box. Three large companies are ready with the transmitting equipment which would carry a program to a home set for unscrambling (at a price). Two others are developing systems.

▶ After FCC provisionally agreed to authorize experiments, word reached the commissioners that the stations aren't sure they won't need to carry advertising. So the regulatory body wrote into the rules released this month a statement of "understanding" that commercials are out. That has dampened enthusiasm on the part of some investors in the project. Then came the announcement that big league baseball games will be aired on the West Coast next season, using telephone land lines, not broadcast waves. FCC has no jurisdiction unless the airwaves are employed. Result is realization that it won't be necessary to pre-empt channels now devoted to programming free to the set owner, financed by advertisers. With each of these developments, the urge to "buy in" has eased.

▶ President Eisenhower is reported ready to put the reciprocal trade agreements program to the acid test by asking Congress to extend the Hull Act not by the usual three years, but for five more years. In some circles this is considered an attempt to set up a basis for bargaining with Congress, hoping to come out with another three-year test. It could have the opposite effect: the present mood of Congress seems to be to give the program one or two years to get out of business gracefully, rather than abruptly cut it off; meanwhile take from the President the sole power to impose "peril point" restrictions -- tariff boosts to stave off extreme danger to a United States industry. Congress may take the President's challenge and end it all, pronto.

▶ The Administration's foreign trade plan will not go to the Hill with hat in hand. It will be vigorously advocated. It will use as its central theme the argument that winning the world for American economic supremacy ranks with, if not ahead of, holding the front line in development of missilry. United States business will be told to double its $4 billion annual rate of investment abroad within the next decade, and back these risks with a national trade policy that will insure profits and early substitution of private enterprise for government support in other countries.

▶ Another reform likely to be suggested: the United States has taken foreign currencies in return for surplus farm products and banked this money in the country of issuance, where it serves no real purpose. Now it's proposed to allocate at least 25 per cent of that money to American industries for expansion or operation, on loan. There are other propositions but the one which seems to have most appeal is international investment guarantee: protection to American business abroad against the hazards of expropriation, blocked currencies, devaluation and similar risks.

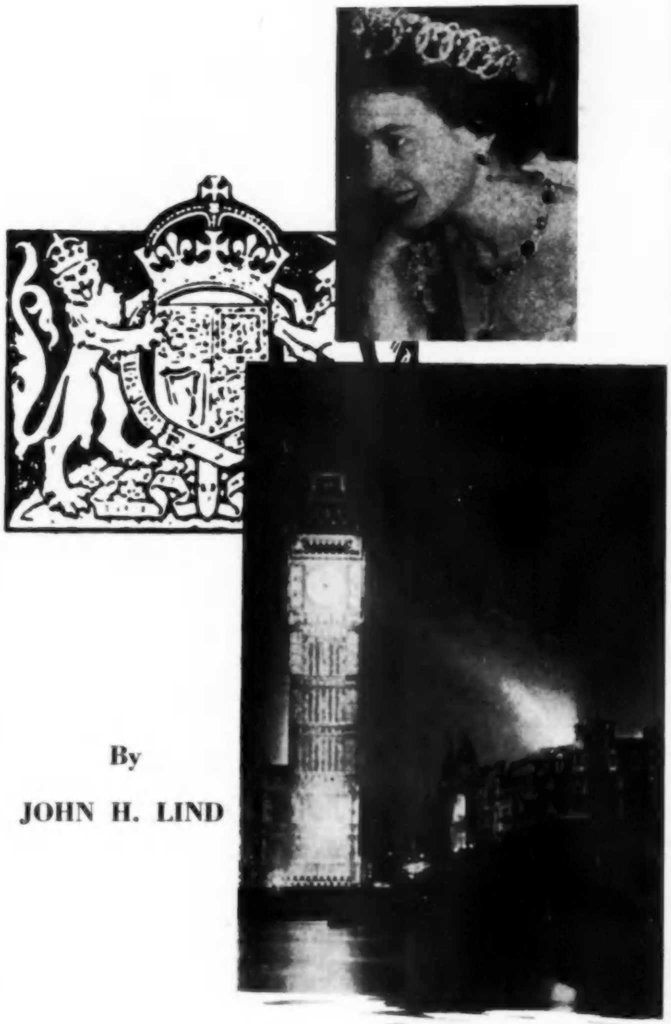
▶ The chilling effect of classroom integration of the races has not dropped to the degree that had been forecast. In the 12-month period ended Sept. 30, school construction bond sales in the United States reached an aggregate of $2.2 billion. Bonds normally provide about two-thirds of the total spent for building programs and if experience repeats this would mean $3.2 billion -- enough to build 105,000 classrooms, sufficient to house 3.1 million pupils without crowding. This compares with the record of 69,200 new classrooms provided in the 1956-1957 school year. While this is a telling argument against putting the Federal Government into the local classroom business, the report does not reveal the geographical distribution of the new facilities; also, it's silent on interest offered to make the bonds marketable.

▶ Following a trend that has been running for several years, 33 states added to management's cost of maintaining workmens' compensation plans in the 1957 legislative sessions. The changes provide for higher payments to injured employees or their dependent survivors, additional medical benefits and broader coverage.

LONDON, ENGLAND . . .

BRITAIN GIRDS FOR SURVIVAL

--First Hand Report From London



By

JOHN H. LIND

Britain is like a patient who must decide whether to undergo a series of painful and complicated operations which are fairly sure to cure him or to keep swallowing pills which give him temporary relief from the symptoms of his disease without affecting its cause.

The decision is undoubtedly a difficult one. For the measures necessary to make Britain's economy healthy again, are the kind that no government or political party, whose strength depends solely on public support, likes to undertake. Neither can they be expected to be readily accepted by a people which has not known the meaning of an economic recession for seventeen years, but has been told by its elders what it was like to be out of work for two years or more during the thirties.

Yet, at least one step has already been taken. The fact that the British economy is ill and that something must be done to make it well again, is now universally recognized in Britain. It is one of the few points on which both the Labour Party and the Conservatives actually agree. They even agree that the prime cause of the trouble is the country's rapidly rising *inflation*, which, if not arrested, will so weaken the underpinnings of the sterling area economy that it might eventually fall apart. For in the last three years the purchasing power of the pound has fallen at an accelerating rate, so that today it is 12 percent below what it had been in mid-1954, with half of the drop accounted for in the last twelve months. (Compared to the last year before World War II, the purchasing power of the pound is now down by 65%)

Since this is a much sharper decline than that registered by Britain's major competitors, particularly Germany and the U.S., it is the main reason for the steady contraction of Britain's share in world trade. In 1956, for instance, although the country's exports of most major commodity grups increased, in no case did they match the average increase in world trade, as the following percentage figures show:

Percentage Increase of Exports
1955 to 1956

	U.K.	*WORLD*
Chemicals	4.9	10.8
Machinery	9.0	18.0
Transport Equip.	19.0	20.0
Textiles	–5.0	2.0
Metals & Manufact's	11.0	17.0

But if both parties agree that inflation must be stopped, even if it takes radical measures to do so, they certainly do not see eye to eye on how to do it. Labour's approach was most succinctly described by Mr. Anurin Bevan, the party's second in command and the probable foreign secretary in the next Labour cabinet. Said Mr. Bevan, "Decide the goods you want produced and stop other goods." He envisaged the decisions being made by the House of Commons as well as by the Cabinet. This is the epitome of Labour's thinking on all economic questions. In their view, only controls and economic regimentation can save the British economy from

floundering. As Labour's shadow prime minister Hugh Gaitskell said at Brighton a few weeks ago, "You can only stop rising prices . . . and keep full employment and expanding productivity . . . if you get away from the free for all knock-about economy where every man and every group . . . are all encouraged to grab as much as they can for themselves . . ."

LABOUR COSTS IN BRITISH INDUSTRY

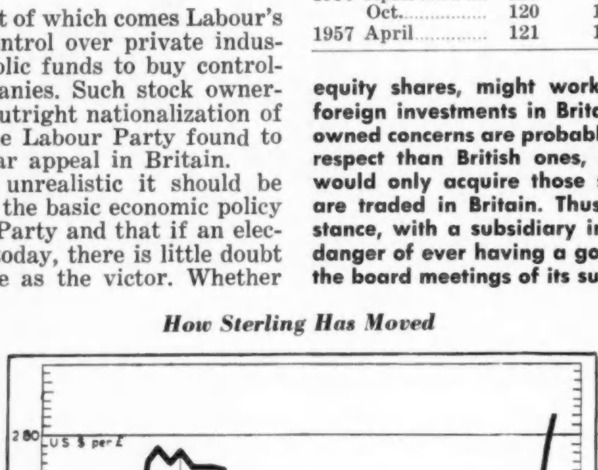
	Output	Employ-ment	"Pro-ductivity"	Earnings	"Labour Costs"
1952 April	100	100	100	100	100
Oct.	101	100	101	103	103
1953 April	106	101	105	107	101
Oct.	112	102	109	109	100
1954 April	113	103	110	113	102
Oct.	117	105	112	117	104
1955 April	120	105	114	124	108
Oct.	123	107	115	127	110
1956 April	121	106	114	134	118
Oct.	120	107	113	136	121
1957 April	121	105	115	139	120

Labor Demands Control of Industry

This is the philosophy out of which comes Labour's latest device to achieve control over private industry, namely the use of public funds to buy controlling stock in private companies. Such stock ownership would be instead of outright nationalization of private industry, which the Labour Party found to have no longer any popular appeal in Britain.

If this scheme sounds unrealistic it should be kept in mind that it forms the basic economic policy instrument of the Labour Party and that if an election took place in Britain today, there is little doubt that Labour would emerge as the victor. Whether this will still be true 20-24 months from now, when the Conservatives will agree to another election, remains to be seen. But most seasoned observers of the British political scene give the Labour Party a better than even chance to form Britain's next government. Thus, the share-buying plan may well become reality within the next couple of years. If and when that happens all business concerns operating in Britain, whether foreign or domestic, can be affected by it.

How Sterling Has Moved



"Failing The Nation"

I specifically asked this question of both Mr. Bevan and Mr. Harold Wilson, Labour's candidate for Chancellor of the Exchequer. Both explained to me that *any* business might have a controlling interest of its shares purchased by the government, under the criterion of "failing the nation". This most ambiguous phrase is supposed to denote those firms which, in the view of a Labour government, do not make their maximum contribution to the national economy. In such firms a controlling interest would be acquired for the avowed purpose of giving the government a deciding voice in all managerial decisions. What "failing the nation" really means in practical terms and by what sandards it would be applied, was something that Labour itself does not seem to know. At any rate, my questions on this point were answered with only vague generalities by most of the Party's leaders who had gathered at their annual conference in Brighton.

I also found that there was absolutely no awareness on the part of Labour Party officials that such a measure, together with a companion recommendation that the Government's pension fund be used to invest in private equity shares, might work as a serious drawback to foreign investments in Britain. Of course, fully foreign-owned concerns are probably somewhat better off in this respect than British ones, since a Labour government would only acquire those shares of a company which are traded in Britain. Thus, an American firm, for instance, with a subsidiary in the U.K. would be in little danger of ever having a government representative run the board meetings of its subsidiary, so long as the bulk of its shares are not traded in sterling. As Mr. Wilson pointed out to me, this is one of the reasons why the stock-acquisition plan would probably never apply to such major U.S. concerns in Britain as Esso, Caltex, General Motors, Ford, etc. On the other hand, it would probably apply to many of the joint U.S.-U.K. business ventures existing in Britain.

Inflation Problems

But let us get back to the more immediate problem of inflation. Here the approach of the Labour Party may be termed as straight Keynesian. In fact the Labour Party seems to have gone the late Lord Keynes one better. For it is unlikely that he would have put all his eggs into the single basket of full employment in a time of sustained inflation. Yet, when Mr. Gaitskell says, "we do not mean by the defence of sterling that our economy must be throttled back . . . in order that merchants and bankers in London can carry on foreign financial business without restrictions," he is really proposing just that, underneath his rhetorics. His suggested measures to cope with the inflation are therefore mainly directed at its symptoms. He would tell the Germans to invest more money abroad "instead of sucking up gold from everyone else," he would tighten the controls on all foreign exchange dealings in order to curb speculations against sterling, he would ask for more loans from the International Monetary Fund and he would bring more planning into the foreign spending of the various Commonwealth countries, "so as to avoid overspending in the group as a whole."

There is no denying that some of these proposals make sense and are worthy of serious consideration. For German gold influx, "bear" speculation against sterling and overspending in other sterling

area countries, particularly India, have all contributed to creating the present situation. But the root of the matter is not to be found in those exernal factors, over which Britain has only a very limited control anyway, but in *domestic wage inflation.* If increases in wages, far in excess of increases in productivity, were not annually secured by the trade unions, then the other elements of inflation in Britain could be brought under control; and if inflation could be brought under control, there would be no flight from the pound, and the problems of the balance of payments could be solved much easier.

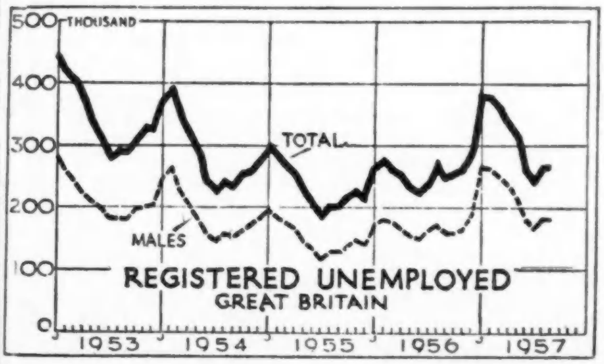
To what extent wage inflation has pushed up labor costs in British industry is shown by the accompanying table on that subject. According to it, a 15 percent rise in productivity (output per man-hour) over the last five years has been accompanied by a 39 percent increase in earnings which has not only soaked up all the cost reductions derived from technological improvements during that period but has actually caused net labor costs to advance by one fifth.

Trade Union Demands

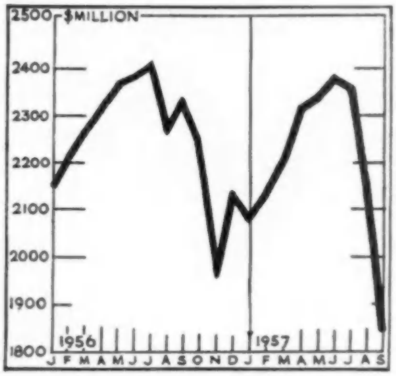
Yet the trade unions, which are the backbone of the Labour Party, have given every indication that they intend to continue this policy of outstripping every productivity increase by a wage increase. At this moment, unions representing 2,500,000 workers already have presented new wage demands or announced their intention to do so. In addition, about 5,000,000 workers, including many seeking higher wages, are demanding a cut in their work week from forty-four to forty hours per week, without any corresponding reduction in pay.

It is in this situation that the Conservative government has finally geared itself to action by taking the now famous step to increase the bank rate from 5 to 7 percent. In addition, it has asked the banks to hold the average level of loans during the next twelve months to the level of the last twelve months and has decreed that investment by national and local governments and nationalized industries, which had been scheduled to rise substantially, be held at the current year's level for the next two years.

The essence of this policy is to reverse the primacy of full employment over the real value of the British currency. It is the expression of an economic philosophy, rejected in postwar Britain up to now, which regards the level of industrial activity and of employment as variable, rather than



U.K. Gold and Dollar Reserves



The chart shows movements in the U.K. gold and dollar reserve since end-1955. Below for comparison are details of gold and foreign exchange holdings of a number of European countries.

	Reserves Latest 1957 $m	End 1956 $m
Belgium	1,076 (July)	1,177
France	1,209 (May)	1,355
Germany	5,765 (Sept.)	4,291
Holland	887 (Sept.)	1,072
Switzerland	1,841 (June)	1,905
U.K.	1,850 (Sept.)	2,133

the level of the value of the currency. If this policy is fully implemented it is bound to bring the government into serious conflict with the trade unions. Labor Minister Iain Macleod has indicated that much when he declared earlier this month that though "no one welcomes strikes, we must not be afraid of them," adding that it was not part of his job to seek labor peace at any price. The first test of the government's willingness to stick by its guns will come very soon, since one of the first wage claims to be settled are demands for increases by the workers of the nationalized railway system in which the government exercises a decisive influence. If the railway workers' claims should be granted—and there are undertones at the recent conservative party conference that they might be—it would set a pattern for all subsequent wage negotiations which might, at least temporarily, counteract the government's anti-inflation policy.

Government economists deny such a possibility, arguing the reduction of the supply of money will by itself prevent further wage inflation because there simply will not be the money in the economy to finance higher wages all around. Theoretically this argument is correct, except that it leaves out the fact that a reduction in the total supply of money can be, and ofen is, offset by an increase in the turnover of money, or as the economists call it, the velocity of money. In non-technical terms this means simply that as money becomes scarcer, more people draw on their savings and turn various assets into cash and fewer people put money into the banks or hold on to cash for any length of time. This is just what has happened in the last few years when the volume of total domestic expenditures rose each year much faster than the combined total of bank deposits and currency in circulation. Of course, this does not invalidate the government's anti-inflation policy. It merely softens its impact and prolongs the point at which the public will feel its full weight.

Deflationary Factors

But a number of other factors, unconnected with the British monetary supply, are now also beginning to influence the country's economy in a deflationary manner. One of these is the fact that the investment boom which began in 1954 has now come to a stop. After two years in (*Please turn to page* 242)

RAILS NOW

and Looking to 1958

By EDGAR T. MEAD, JR.

As we approach the final months of 1957, the outlook for railroad earnings provides less cause for optimism than held true during last summer. A major element is the continued decline in traffic, which might be typified as gradual rather than abrupt. Costs of labor and materials have continued to follow along an upward inflationary spiral, and the railroads have thus been thwarted in their efforts to offset these increases by seeking new mechanical aids to efficiency, the reduction of unprofitable services, such as passenger and branch line operations, and the applications for freight and passenger rate increases. The prospects for traffic suggest a prolonged but not serious decline during the next several quarters, which may produce slightly lower earnings for the majority of Class I Carriers during the early part of 1958.

Railroad common stock prices have been hard hit during the past few months, partly in anticipation of lower earnings, partly by the effects of tax selling, and partly by other causes, such as large scale foreign and institutional selling. In many occasions, prices have been set back to pre-1953 levels.

The operating figures for 1957 may not reveal very much overall change from 1956, and gross revenues will probably hover in the vicinity of $10 billion, about the same as last year. Traffic volume as measured by ton-miles is expected to fall about 5-6% below 1956. Revenues were relieved by two freight rate increases, the one during the early months of 1957 and the other during the summer. Earnings are suffering in particular from wage increases, the first of which added 3c per hour to the total payroll. The second 1957 increase, due in November, may be on the order of 12c per hour.

The rail market price decline has been so widespread, that virtually every major rail stock has formed a new low during the past several weeks. Certain stocks were harder hit than others, especially where dividend cuts seemed a likely event or where they actually materialized. The Erie, Illinois Central and Lackawanna found it advisable to reduce the quarterly dividend recently, and there have been fears lest Seaboard Air Line, Gulf-Mobile & Ohio, St. Louis-San Francisco and Pennsylvania bypass the forthcoming quarterly payments. The New York Central substituted a disbursement of Reading Company common stock in lieu of a cash dividend. A handful of carriers, such as Denver & Rio Grande Western, Western Pacific and Baltimore & Ohio are still considered to present good prospects for dividend increases, and there is evidence to assume that Western Maryland may inaugurate common dividends next year after a lengthy lapse. Northern Pacific recently increased the dividend rate from 45¢ to 50¢ quarterly as the result of an increase in other income, largely from oil sources.

Bearishness Widespread

During the past year or so, it has become increasingly popular for railroad specialists to wax bearish. A basic reason is that regulated industries, such as the railroads, tend to perform badly in the face of continuing inflationary pressures. Another reason is that during any period of economic test, it is difficult for railroads to curtail expenses for any protracted period so that, sooner or later, earnings are affected adversely. Railroad stocks, like the securities of other cyclical industries, generally behave in an erratic fashion when business conditions exhibit a strain, and railroad securities have certainly reacted more violently than industrial stocks during the past several weeks.

Statistical Position of Leading Railroads

	Gross Revenues 1st 8 Months (Millions) 1956	1957	Percentage Change %	Operating Ratio 1st 8 Months 1957	Full Year 1956	Net Per Share* 1st 8 Months 1957	Full Year 1956	Indicated Current Div.	Recent Price	Div. Yield	Ratings
Atchison, Top. & Santa Fe	$392.8	$408.7	+ 4.0	76.8%	75.9%	$1.37	$2.64	$1.75	19	9.2%	A2
Atlantic Coast Line	113.9	111.4	— 2.1	83.6	85.2	3.02	4.79	2.00	31	6.4	B2
Baltimore & Ohio	307.3	311.6	+ 1.4	80.3	80.6	5.61	10.85	2.00	33	6.0	B1
Chesapeake & Ohio	273.5	289.0	+ 5.6	68.5	67.9	5.34	8.28	4.00	50	8.0	A1
Chicago & Northwestern	149.2	145.9	— 2.2	85.4	87.8	[d]3.59	[d]12.43	....	16	....	D3
Chicago, Rock Island & Pac.	133.8	141.1	+ 5.4	77.3	76.7	2.55	5.38	2.70	24	11.2	B3
Dela. Lack. & West.	58.7	57.2	— 2.5	85.5	83.0	....	[d] .05	.75	9	8.3	C3
Delaware & Hudson	62.2[3]	62.9[3]	+ 1.1[3]	....	67.2	3.44[3]	5.16	2.00	21	9.5	B2
Denver & Rio Grande W.	51.5	56.2	+ 9.0	64.9	63.1	4.02	5.79	2.50	34	7.3	B1
Erie	114.7	115.9	+ .9	82.6	78.2	.60	3.03	1.00	10	10.0	C3
Great Northern Ry.	207.1[3]	210.6[3]	+ 1.7[3]	76.1[3]	74.6	3.35[3]	5.32	3.00	36	8.2	B1
Gulf, Mobile & Ohio	55.0	56.4	+ 2.5	80.1	75.1	1.04	4.01	2.00	16	12.5	C3
Ilinois Central	194.8	193.4	— .6	79.5	74.5	3.11	7.66	3.00	34	8.8	B3
Kansas City Southern Sys.	31.8	30.4	— 4.3	57.8	59.2	3.70	10.58	4.00	49	8.1	B2
Louisville & Nashville	139.3	141.0	+ 1.1	83.2	79.1	5.61	10.70	5.00	63	7.9	B2
Missouri Pacific	202.7	200.7	— .9	76.6	76.2	5.39[1]	10.47[1]	4.25	29[1]	14.6	C2
New York Central	518.0	500.7	— 3.3	83.9	81.8	1.31	6.02	1.50[2]	18	8.3	C3
N. Y. Chicago St. Louis	128.8[3]	130.2[3]	+ 1.1[3]	71.4[3]	69.7	2.60[3]	3.97	2.00	20	10.0	B2
Norfolk & Western	156.9	17 .4	+ 9.2	67.8	68.4	5.02	7.39	3.75	58	6.4	A1
Northern Pacific	123.3	121.5	— 1.4	83.5	80.5	2.64	4.23	2.00	34	5.8	B1
Pennsylvania	654.8	670.9	+ 2.4	83.9	82.4	1.26	3.16	1.40	15	9.3	C3
Reading	90.0	92.5	+ 2.7	79.2	76.5	3.72	6.65	2.00	26	7.6	A1
St. Louis-San Francisco	91.4	88.0	— 3.7	79.6	77.0	1.23	3.72	1.50	12	12.5	C3
Seaboard Air Line	109.9	109.9	....	75.2	74.3	2.60	4.20	2.50	25	10.0	B2
Southern Pacific Sys.	453.2	443.0	— 2.2	80.5	80.8	3.36	6.0[illegible]	3.00	34	8.8	B3
Southern Railway	183.5	178.7	— 2.6	72.1	68.6	3.04	5.52	2.80	32	8.7	A2
Union Pacific	333.1	339.2	+ 1.8	75.2	73.1	2.06	3.36	1.60	25	6.4	A1
Virginian Railway	36.6	44.0	+20.2	44.1	47.6	3.56	4.08	1.80	28	6.4	A1
Western Maryland	33.8	37.0	+ 9.4	69.6	69.4	8.17	10.22	....	54	....	C1
Western Pacific	35.2	37.1	+ 5.4	73.3	76.8	5.54	6.29	3.00	50	6.0	B1

[d]—Deficit.
*—Before funds.

[1]—Class 'A' stock.
[2]—Plus 1/25 share of Reading Co.
[3]—9 months.

Ratings: A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

Is Pessimism Justified?

Observers of railroad statistics and operations during the postwar years have noticed with mounting hope the fact that slowly but surely, a management revolution on the railroads has been developing. Not only have younger and better trained men bene selected for promotion, but a high-caliber group of university graduates has become attracted to work on the railroads. This change has brought about a greater apparent awareness of the operating, traffic and even political problems facing the industry. A large majority of the railroads which fell bankrupt during the Depression have emerged under good management guidance as important and dynamic organizations and with a record of traffic improvement and commendable operating efficiency.

Many Economies Still To Be Gained

Similar to other industries, the railroads are availing themselves of the newest scientific developments. Modern office machines are making short work of the tedium of payroll, inventory and other routine matters. Pushbutton freight yards are producing high returns on investment and, in addition, the new yards are expediting service and reducing loss and damage claims. Centralized traffic control is enabling railroads to tear up second track, thus reducing maintenance expenditures, cutting real estate taxes, and providing a ready source of usable rails, ties and other track materials. Locomotive and car shops have been improved greatly, and it is not uncommon to find that one central mass-production shop has replaced two or three outmoded, isolated and inefficient facilities. The retirement of branch lines has produced noticeable savings, and there are many remaining branches which may be abandoned in the future. The merging of parallel tracks of different railroad companies is a process still in its infancy, and this procedure is especially helpful where the volume of traffic does not logically justify the maintenance of separate duplicating lines. Many passenger trains have been eliminated, and, in fact, railroads are currently increasing their efforts to remove deficit-ridden passenger trains. New departments have been initiated with the sole purpose of helping industries to locate new factory sites. The advent of Piggy-back service should ultimately prove rewarding through the faster speeds and convenience made possible by handling truck trailers on railroad flatcars.

Certainly, the existence of these forces indicates that the railroads are consciously striving to improve the efficiency of operations. These activities require the outlay of large sums of money, and it seems probable that the eventual savings will amply justify the investment. All of this seems to indicate that there is room for optimism concerning the railroad industry in the future.

Many Problems Exist

The diesel locomotive has been proclaimed as the saviour of the railroad industry. Costs of repair for the older units, however, and a steadily increasing price for diesel fuel oil has tended to reduce the initial savings. Progressive railroads, on the other hand, are finding new ways to utilize diesel locomotives to a fuller extent, thus increasing the economies originally made available.

Regulation of rates by Government agencies is a difficulty common to railroads, utilities, air lines and other public services. One of the disheartening aspects is that only 35% of all highway trucks and slightly over 11% of barge lines are covered by the Interstate Commerce Act. An increasing trend, which has proven impossible for common carrier railroads and trucks to surmount, has been the purchase or lease of large private truck fleets by manufacturers and distributors. These fleets are not subject to regulation and are responsible for a sizable erosion of common carirer rail and truck traffic.

The Railroad Brotherhoods have successfully raised the labor rate of employees to a nearly unmanageable level for the railroads. In addition to contractual wage boosts, which are in part governed by the Cost of Living Index, the unions have won sizable fringe benefits and other special agreements popularly referred to as "featherbedding". For example, the fireman of a train may receive an extra half-day of wages just for throwing a single switch at a railroad junction.

Commutation service has become increasingly onerous from an earnings standpoint, and commuting fares are still charged at a substantial discount from standard train fares. Traincrews, locomotives, cars and terminals can only be used for a few hours in the morning and evening each day, and no other productive outlet for this investment in equipment and wages exists. The railroads are therefore being obliged to raise commuting fares, which is not an easy task. The airplane and private automobile have modified the need for long distance train travel service, and the majority of these passenger trains tend to operate at a loss. Higher fares and further curtailment of service are virtually the only solutions open to the railroads to offset the rapidly rising costs of passenger train service.

Coast to Coast Survey

Revenues and earnings have been sustained satisfactorily on the Transcontinental railroads, particularly those which handle trains with a minimum of switching. The Pocahontas coal railroads have performed extremely well, helped by increased demands for minerals from steel mills, utility plants and industries both in this country and abroad. Revenues and earnings on the Southern railroads have acted moderately well. The Eastern railroads, harassed by the problems of shorthaul traffic, an abundance of switching, and passenger deficits, by and large turned in the least satisfactory results of the entire group. If any succinct conclusion could be made about the rail group, it is that market prices seem to have fared much worse than railroads earnings. In no cases were earnings lower than the rail price declines during 1957.

The Western Roads

Atchison, Topeka & Santa Fe has thus far enjoyed in the neighborhood of 4% higher gross revenues during 1957, although higher maintenance and transportation costs have tended to offset revenue gains. Handicapped by a severe passenger traffic deficit and a plethora of branch lines, Santa Fe's

operating ratio has lately exceeded the former 75% level. The long term outlook for traffic development along the line is certainly one of the most favorable in the industry, and the railroad is usually able to demonstrate a fair degree of control over expenses during periods of economic adjustment. Earnings may trend as much as 30¢ under last year's healthy $2.64 per share, thus indicating the rather attractive price/earnings multiple of 8½ times. If last year's year end extra is repeated, the resultant payment of $1.75 for 1957 would produce the lively yield of 9%. On the basis of the normal 30¢ quarterly disbursement, the yield of 6% is still desirable—especially for a top-flight railroad of the caliber of the Santa Fe.

Union Pacific R.R. operates an excellent transportation system and also holds wealthy oil lands in California and Utah. Elsewhere on the line are valuable mineral deposits, which should eventually develop into traffic and royalty sources of income. Last year, the Wilmington and East Los Angeles fields reached the point where secondary recovery became necessary. The institution of this procedure has already brought about an upturn in oil and gas income, so that earnings for 1957 should exceed the $3.36 reported last year by a small margin. In this event, a year end extra, payable in January, 1958, should be a logical expectation, and the resulting yield at the current price would be around 6½%.

The **Southern Pacific Co.** has barely been able to hold its own against the tribulations of higher wages, material costs and other inflationary factors, despite the fact that its traffic territory has shown the fastest growth rate in the country. Revenues have improved slowly, but reported earnings have not displayed the same degree of consolation. This year, Southern Pacific's earnings may not vary greatly from the $6 per share earned in 1956, and they could be as much as 25¢ per share less than last year. Passenger deficits are in the $55 million bracket and may be higher this year. The road is spending large sums on new yards, a rock fill across Great Salt Lake, and other projects which should eventually produce economies or additional revenues. The railroad boasts of the nation's most extensive Piggy-back service, and the company may earn as much as $3 million on a new pipeline. Earnings from a truck subsidiary are becoming more important, and there are worthwhile potentials ahead in the development of minerals, petroleum, timber and other adjuncts to rail service, such as the leasing of refrigerator cars.

Northern Pacific Ry. common stock has performed rather well during the recent months of rail market discouragement. Part of this is doubtless due to the growing confidence in the road's management. As further evidence, the income from oil royalties is increasing. Against receipts of $3.2 million last year, oil income may reach $6 million in 1957. A visible token of this improvement is the recent increase in the dividend from 45¢ to 50¢. Traffic on the railroad suffered moderately from lower lumber sales, owing to the reduced number of housing starts, as well as from other traffic items which declined slightly. A report on the forthcoming merger with Great Northern and the Burlington should be on hand before too long, and this may outline in greater detail some of the company's valuable oil, timber and mineral holdings. The stock sells about eight times estimated 1957 earnings, with a 5¾% yield.

Great Northern Ry.'s traffic has been sustained better than might have been predicted early in the season, although earnings fo rthe year 1957 may show a slight reduction from the $5.32 per share reported last year. The carrier is an important factor in the handling of grain, lumber, ore and other heavy materials. The ultimate merger with Northern Pacific should create an extremely valuable and strong asset, and both companies are blessed with good management and excellent traffic prospects. Great Northern common stock provides a yield of over 8%

Western Pacific R.R.'s common stock has settled into an unusually stable pattern, far from its ups and downs recorded during 1956. The explanation seems to lie in the fact that the railroad is still spending large amounts of money on the improvement of its properties, a policy which up until now has precluded a higher payment on the common stock. As time passes, more of the program, which includes the building of new yards and the relining of tunnels, can be finished. It is possible that in view of this year's estimated earnings of over $9 per share (vs. $6.29 last year), the management might consider a modest increase in the present $3 dividend.

Denver & Rio Grande Western R.R. made further progress as to earnings in 1957, and it is possible that results of around $6-$6.25 per share may be reported for the year, compared with $5.79 in 1956. This performance has not arrived by accident. The good auspices of management have converted the Rio Grande into a high-capacity, high-speed connection between the Mid-Western and Far-Western carriers. The line is equipped with the most modern mechanical and electronic devices, and traffic appears to be steadily increasing. The company maintains an excellent cash position and has been repurchasing its own stock in the open market. A dividend increase is not unlikely.

Mid-Western Group

Chicago, Rock Island & Pacific R.R. has experienced a time of troubles as to traffic volume and operating expenses, but the longer term outlook for this well-managed company is not without considerable hope. The first half of 1957 resulted in a reduction in net income by about one-third, which helped to skid the stock price from 37 down to the current quotation of 25. Revenues and earnings are improving during the second half, but the full year results may be as much as $1 under last year's $5.38 per share. A higher level of farm income and the gradual development of industry in the Rock Island's service territory is needed to clear the way toward more satisfactory earnings levels during the next few years.

Kansas City Southern Ry. should report earnings in the same range as last year, when the company's consolidated operations provided $10.58 per share. The railroad ranks as one of the country's most efficient carriers, and the development of new industry and other traffic sources has helped to increase revenues.

Missouri Pacific R.R. shared the same 1957 trend with other carriers in its area, in that traffic declined during 1957. (*Please turn to page* 242)

THE MAGAZINE OF WALL STREET
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THE EDITORS'

INVESTMENT CLINIC

OUR POSITION ON BONDS

We have been particularly impressed with the number of inquiries received by our Service Department, wondering about our opinion on the current state of the bond market.

Many of our subscribers, cognizant of the cautionary approach to stocks we have been counseling for the greater part of this year, are now in a particularly liquid position, and, understandably are seeking opportunities to reinvest their heavy cash reserves. For this reason we feel it would be of service to make clear our position on bonds as an investment medium today—especially since so many investment advisers have been counseling their clients to use the bond market as a refuge for capital until an upward trend in stocks again materializes.

We have not been unaware of the various arguments being put forth today to encourage investing in bonds. The disparity between stock and bond yields which existed just a short time ago; the historical pattern which indicates that when stocks are going down bonds will move in the other direction, etc., are as well known to us as to others. However, today we feel the situation is significantly different than at most periods in the past.

Empirically, it should be noted that so far bonds have not moved counter to the general trend in stocks, but, as a matter of fact, have continued to decline, although naturally at a slower rate than equity prices. And although we do not profess to know exactly when the bond market may recover, we have felt it the better part of wisdom to withhold commitments until a definite upturn had evidenced itself—for despite the downward movement of stock prices we can still see a troublesome situation for bonds.

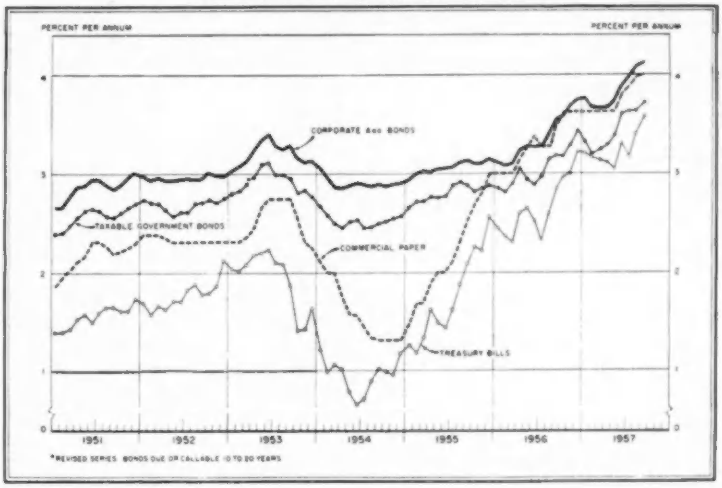
We note with interest, for example, that corporate bond financing has been accelerating at the same time that economic activity has been slowing down —and in many cases this may be a symptom of a weakening in corporate financial strength. Borrowing at the beginning of an industrial boom to finance the necessary expansion of facilities and the production of goods to meet a mounting demand, is a healthy and sound practice. But now we are at the peak of a boom both at home and abroad, and much of today's debt financing is being used to rebuild depleted cash and working capital positions. This is desirable from the investors standpoint.

Of course there are exceptions. In a class by itself is American Telephone & Telegraph, which has maintained a consistent ratio between stock and bond capitalization over many years and has seldom had difficulty in merchandising its securities.

But it must be remembered that A.T. & T.'s financing is invariably done to enable the company to meet a demand for its services *which already exists,* assuring that the funds derived in the market will be put to productive use immediately.

But aside from judging whether financing plans for most companies are constructive or not, there are other and equally important reasons for our hesitancy concerning the bond market. Interest rates, the best barometer of conditions in the money market, have reached their highest level in many years, and despite hopes in many quarters that the Federal Reserve will ease some of its stringent monetary restraints, we see no sign yet that money rates have begun to soften. New bond offerings are still piling up on underwriters' shelves—in fact, many of the larger firms are suffering from acute cases of bond indigestion—despite the willingness of corporations to offer higher and higher coupon rates, as well as various added inducements to facilitate the marketing of their issues.

BOND YIELDS AND INTEREST RATES



Under these conditions, bond prices must remain vulnerable, and we see no sense in obtaining 5% or better returns on capital on one hand, while running the risk of suffering a loss of principal on the other.

Also complicating the interest rate picture are recent government defense economies which seem certain to force military contractors to borrow funds they had expected to receive from the Defense Department as progress payments. Estimates of this type of financing run as high as $1 billion, and coming at a time when the demand for funds is still strong from most other segments of the economy, the affect is bound to place further upward pressure on interest rates.

We recognize of course that Federal Reserve action could be taken to ease the tight money situation, and that this might temporarily lower money rates and stimulate bond prices, but no permanent easing can occur until the demand for money slackens off —and there are no signs that this is happening yet.

A glance around the world, as a matter of fact, at the high interest rates obtainable in England, Germany and elsewhere, offers proof that capital shortages are a universal phenomenon. And it is axiomatic that commodities in short supply command high prices.

But, other subscribers ask, what about older corporate issues which are depressed, yet relatively close to maturity and can therefore be expected to increase in price with each passing year?

We can only answer that there are numerous quality issues of this kind, but until we can see with certainty that the down-trend in bond prices has been arrested, we see no reason to tie-up capital in risk securities when yields of 3% and better are available in risk-free savings accounts.

And as for municipal securities which offer certain attractive tax-free advantages, we cannot wax enthusiastic in view of the weak performance of these securities in the last year and the ever increasing difficulty municipalities are having in financing even their day-to-day obligations. Municipalities clear across the country are being pushed to the fiscal wall, and each time they are forced to sell securities at higher interest rates they naturally force existing issues down to lower prices. Since the outlook is for no diminution in the financing needs of cities, the lot of the already issued securities does not appear to be a happy one.

Undoubtedly there are many attractive government, corporate and municipal securities that can be purchased with minimum risk. Nevertheless, considering the unsettled state of our times; the exceptional drains on all of our financial resources; and especially the weakened position of all securities markets in recent months—we would prefer to sacrifice a point or two in bond prices—admit that we cannot catch the bottom of the move—but feel assured that we have placed our readers on a profitable and *secure* track when they make their commitments.

* * *

The sharp decline in the stock market—about 100 points—in recent months has been a matter of increasing concern to many investors. The decline followed the longest bull market on record. During the period of advancing prices, investors held with equanimity stocks that were purchased at much lower prices and forgot to weigh values as they did when they originally acquired the issues. The usual yardsticks, that of proper price earnings ratio, dividend yields, and prospects were disregarded as long as the market advanced and so sufficient thought was not given as to whether the stocks were over-discounting future growth. The market drop has made a reappraisal of security investments imperative. The following inquiry contains stocks that are held by many subscribers and so we felt would be interesting to many readers:

Personal Service Dept.
THE MAGAZINE OF WALL STREET
90 Broad St.
New York 4, N. Y.

"I am a business executive, age 36, with a substantial earning power and am not in the need of

income from securities, but my primary investment objective is long-term capital building.

I have substantial investments in American Cyanamid, Minneapolis-Honeywell Regulator and General Dynamics Corp.

I had very good profits in these equities and regret that I did not follow your magazine's advice early this year, when the market was much higher, to accept at least some profits, and so a good portion of the paper profits have evaporated. Now in the light of the present market and my investment objectives, what shall I do with these three stocks?"

—D. E., Dearborn, Mich.

In reviewing your securities, we have taken into account the fact that you are a young executive, with a good income from your business and not dependent on dividends from security investments.

With your primary investment objective of capital growth over the long-term in mind, our recommendations on your three stocks are the following:

American Cyanamid Co. ranks as the sixth largest chemical company. Through its Lederle Laboratories Division it is a maker of pharmaceuticals and biologicals. This phase of the business accounted for about 23% of 1956 sales. A breakdown of the balance of sales volume was the following: Organic chemicals, 18%; industrial chemicals, 14%; agricultural, 11%, fine chemicals, 10%; plastics, 9% and pigments, surgical products, formica, and other, 15%.

From a humble beginning in 1907, this company has grown to be one of the leaders in an expanding and dynamic industry. It operates more than 40 plants, mines and laboratories in the United States, Canada, Mexico, England, India, Japan, Argentina, Brazil and South Africa. It employs 27,500 persons and is owned by about 64,000 stockholders.

The company is now embarked on the largest expansion program in its 50-year history.

Cyanamid's recently elected president, Dr. Wilbur G. Malcolm, anticipates sales for the full-year of 1957 to expand to about $525,000,000 up from $501,000,000 reported for 1956. Total capital expenditures for construction for new facilities and expansion of present plants will reach an all-time peak in 1957 at more than $75,000,000. The company's 6,000 products include fertilizers, insecticides and fumigants; human and veterinary pharmaceuticals, biologicals and antibiotics; plastics; organic and inorganic dyestuffs and pigments, acids and alums; and explosives.

Net sales of the company and its wholly-owned subsidiaries for the first nine months of 1957 were $392,161,000 as compared with $374,953,000 for the first nine months of 1956.

Consolidated earnings before taxes amounted to $72,058,000 for the nine months of 1957 as against $64,354,000 (exclusive of extraordinary gains) for the corresponding period last year.

Consolidated net earnings were $36,758,000 against $33,454,000, exclusive of extraordinary gains, for the 1956 period.

Common stock outstanding increased to 21,197,008 shares at September 30th, 1957, from 10,303,013 at December 31st, 1956, as a result of the stock dividend of one share for each share of such stock outstanding June 3, 1957, which was paid July 12th, 1957; conversions of preferred stocks during that period; and the issuance on August 28, 1957, of 46,451 shares of common stock for the business and assets of the MacGregor Instrument Company.

After deducting dividends on preferred stocks, net earnings applicable to common stock for the first nine months of 1957 amounted to $1.73 per share based on common stock outstanding September 30, 1957, compared with $1.59 for the first nine months of 1956 based on shares outstanding at the end of 1956, after giving affect to the stock dividend paid July 12, 1957. Cash dividends are $1.50 annually.

In 1956, the company also realized extraordinary gains which, after related federal taxes, amounted to 54¢ per share of common stock.

Two Cyanamid subsidiaries are Formica Corp. with responsibility for production and sale of decorative and industrial laminates with applications in table-tops, worksurfaces, furniture, others; North American Cyanamid Co., Ltd., is active in sales, distribution and technical services in Canada, for the products of all Cyanamid divisions, and in the production of agricultural chemicals, mining chemicals, human and veterinarian pharmaceuticals, industrial chemicals, plastics and resins. In addition, the Jefferson Chemical Company, a 50% owned affiliate, produces petrochemicals.

The Lederle Laboratories Division will start large clinical trials of its new "Live Virus" polio vaccine in the near future, according to Dr. Malcolm, president of the company. He said the test probably would be made on between 1,500,000 and 2,000,000 people. The company believes that this type of vaccine should give better immunity than the Salk vaccine, made from dead virus.

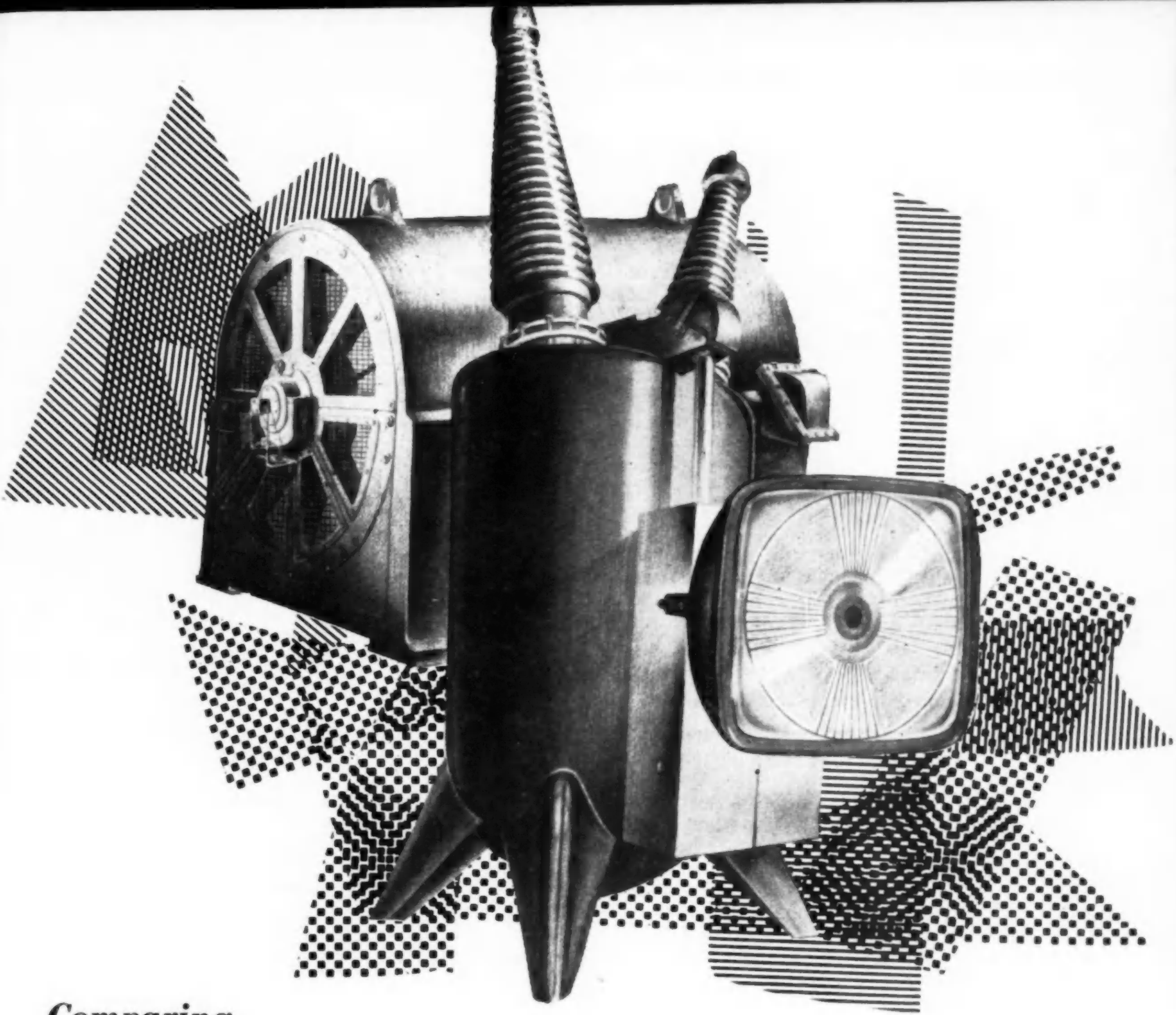
Lederle Laboratories Division until recently had been making about 50% of the industry's Asian flu vaccine. Total industry production is now up to about 6,000,000 doses a week of which Lederle makes about 20%.

The company's research program is quite large. Next January the company is expected to put on the market a new drug for the treatment of arthritis. According to the chief executive of the company, the new drug will have fewer bad side affects than similar compounds now on the market. He also stated that the company's new acrylic fiber will be on the market early in 1958.

With a management experienced, capable and progressive, the near and long-term outlook continues favorable. The business is well diversified and developments in the pharmaceutical, chemical, plastic and other fields indicates sales and earnings progress should be notable. For an investor seeking long-term growth, the shares merit retention.

General Dynamics Corp. has enjoyed a remarkable growth in a relatively short span of years. From a slow-moving shipbuilder, the company has expanded into a major industrial enterprise. Since 1946, sales have increased from about $14 million to over $1 billion last year. While it has been officially stated that approximately 85% of this year's earnings will be derived from military products, the announced goal of the company is to attain a ratio of 50% military and 50% commercial business.

Operations of the company are conducted through seven separate units. Convair Division, the largest contributor to sales and earnings, has military orders for the Atlas and Terrier guided missiles, the B-58 supersonic jet (*Please turn to page* 249)



Comparing

2 ELECTRICAL GIANTS

⋆ GENERAL ELECTRIC
⋆ WESTINGHOUSE

By ELLIOT BERNARD

Two companies dominate the important electrical equipment industry which has turned in of the superior growth records of our economy, General Electric and Westinghouse. Each is a member in good standing in the highly exclusive billion dollar sales club, GE with $4 billion in 1956 and WX with over $1.5 billion. For investors, the relative merit of the two companies is an endlessly intriguing question to which a simple answer cannot be given.

In large part, the two leaders are much alike. Each makes almost every type of product used for the generation, transmission, utilization, and control of electricity. If it is powered by electricity or produces electricity, one can be sure it is or can be made by either General Electric, Westinghouse or both.

Moreover, each is highly active in atomic energy in reflection of the obvious importance of nuclear developments to the electrical apparatus market, Westinghouse designed the reactor for the first atomic submarine, the Nautilus and the first full-scale U.S. atomic powered station for generating electricity at Shippingport, Pennsylvania. GE is also supplying several of the reactors for the power plant demonstration of the Atomic Energy Commission. Between them, the two will supply almost all of the projected 1,000,000 kilowatts of atomic powered electric generating capacity scheduled to be installed over the next several years.

At the fringes of their businesses, of course, there

is some diversity. GE has an important position in the gas turbine market for railroad locomotives and aircraft. Its man-made diamond sideline, small though it may be, is unparalleled, though indicative of the scope of GE research. Westinghouse has a sizeable and quite profitable interest in radio and television broadcasting — operating TV stations in four cities; Boston, Cleveland, Pittsburgh, and San Francisco, and radio stations in six cities.

Where Westinghouse differs importantly from GE is in the much greater significance of the utility market to its business. Table I shows the approximate distribution of the 1956 sales dollar of each company.

Table I SOURCE OF REVENUES – 1956

	GE	WX
Consumer Goods	40%	26%
Industrial and Public Utility	40	57
Defense	20	17

The great bulk of the industrial and public utility classification is electric generating apparatus and allied products sold to utilities. This difference and its critical meaning to WX almost unquestionably underlies the somewhat greater progress WX has made in atomic energy.

Outlook Good For Electrical Equipment

It also raises a highly interesting question with respect to the degree to which each company might be affected by the slowing pace of the general economy presently indicated for 1958. There are not many of us who claim to know just where business in general is heading and there are few areas toward which one can look with any great confidence. Electric generating equipment, however, is one of the few–and the outlook is very good indeed.

Twice each year the Edison Electric Institute, the recognized trade association of the electric utility industries, asks almost all of the major public utility systems in the United States and the major equipment suppliers about the condition of their business and their expectations for the period ahead. Utility answers are naturally guided by general business conditions and are therefore neither better nor worse than other business forecasts.

The equipment suppliers, on the other hand, are able to provide answers that have a high degree of reliability, not only for the immediate future, but even for a year or more ahead–thanks largely to the very nature of their business. It takes anywhere from 18 months to two years to design and build an electric generating station so that the makers can tell just about how busy they are going to be.

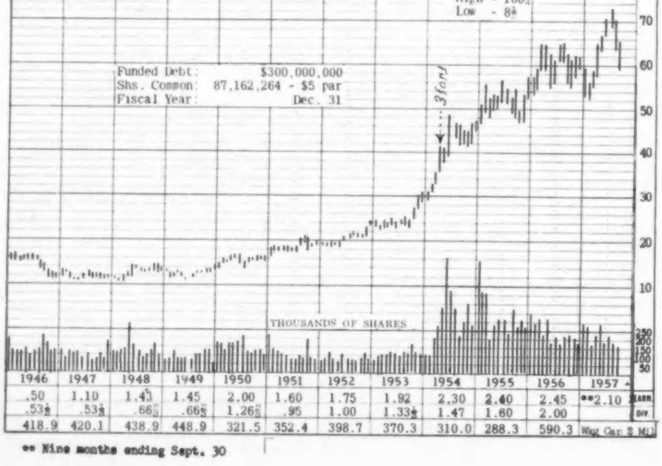
According to industry projections the suppliers look forward to record-high shipments for 1957-59 after a particularly violent cyclical swing during the post-Korean capital goods slowdown. Moreover there are good reasons to expect the cyclical swings that are bound to recur after 1959 to fluctuate around the previous highs of 1953-54. The reasons are:

1. The striking growth of electrical energy demand upon utilities. Even in a year like the present one the sharply rising trend of domestic energy consumption has resulted in a 4-5% increase in total demand–though industrial activity is below year-ago rates. Utility industry forecasts indicate average annual gains of about 6%. Applied against a capacity base of over 150 million kilowatts, this means annual demand for some 9 million kilowatts of generating equipment to meet increased power use after 1959.

2. To the demand for additional capacity can be added 2% (3 million kilowatts) for depreciation and obsolescence and 2 million kilowatts for export and industrial use.

It is therefore easy to see why most experts envisage a long period of prosperity in the utility equipment market. By the very nature of the equipment market, utility companies will be more or less forced to continue purchases of their new facilities in a regular way. Ups and downs will of course recur, but, barring a major recession, the swings seem likely to be moderate. Because of the greater significance of this market to Westinghouse, this favorable outlook means more to it than to GE. And to investors it means the traditional market downgrading of WX as compared to GE may be in for some modification, at least to some degree.

GENERAL ELECTRIC CO. GE



** Nine months ending Sept. 30

Comparing GE and Westinghouse

At present, WX is not regarded by most investors as being on a par with GE. GE is thought of, and unquestionably is, one of the blue chip enterprises of the American economy. It ranks well up (14th) among the Favorite Fifty companies held by investment companies and there is scarcely a high quality portfolio that does not include the stock. WX, by contrast, is 45th on the Favorite Fifty list and is usually placed in the "businessman's risk" classification on most investment lists.

On the New York Stock Exchange, this difference in investor attitudes finds basic expression in a lower earning multiple for WX common. Over the past 10 years it has sold for an average of 10.4 times earnings versus a 14.7 times earnings capitalization of GE shares. The stocks are currently quoted at about the same price though GE

is expected to earn only $3.00 a share to WX's $4.00.

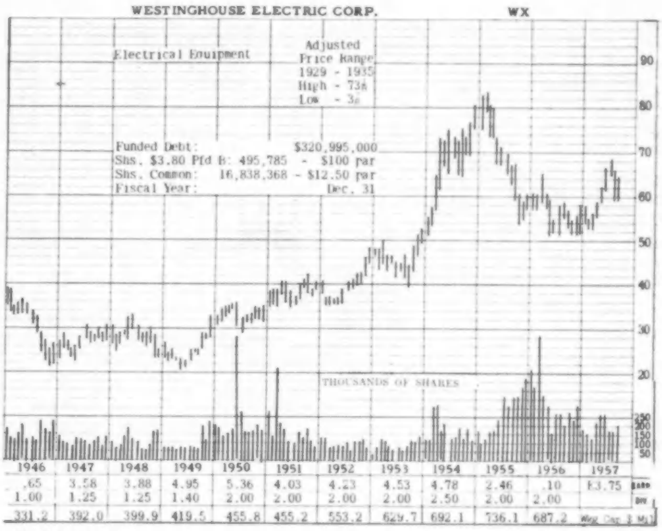
The major reason for the difference in market evaluation is the profound difference in the profitability of the two enterprises. In the five years 1950-54 (1955 and 1956 comparisons are excluded because of the WX strike) GE's operating margin averaged 17.5% before depreciation, WX's 13.6%. GE produced a 19% return on capital invested in the business, WX a return of 9%.

The ability to earn a high return on the funds put to work in a company is, of course, the bedrock upon which a sound growth record is built. Without such ability a good growth record is difficult if not impossible to achieve. Thus, since 1946 WX has retained some $275 million – $17 a share – or more than half of earnings and built book value of the common to some $44 a share. Nevertheless, net income this year will only be about one-and-a-half times those reported for 1947. GE retained only one-third of earnings or some $600 million–$7 a share–and increased book value to $13.54. Its earnings, however, will be almost three times those of 1947. GE's common dividends increased from 53¢ a share to $2.00; Westinghouse's from $1.25 to $2.00.

GE Has Outstanding Growth Record

In terms of market prices, also, GE shareholders have fared much better. In the past 10 years their stock has more than quadrupled. Westinghouse's has only doubled.

Since the market, like most of us, tends to rely on the past as the best single indicator of the future, it is not surprising that it reflects a willingness to pay more for GE than WX. The data cited above certainly do nothing to bring the characterization of GE as the superior growth stock into question.



E - Estimated

The following table shows electrical generating apparatus shipments and share earnings for the two companies:

	Shipments Million KW	Earnings GE	Earnings WX
1947	4.5	$1.10	$3.58
1949	7.1	$1.45	$4.95
1950	6.8	$2.00	$5.36
1951	7.5	$1.60	$4.03
1954	13.7	$2.30	$5.06
1956	9.1	$2.46	.10
1957 est.	14.0	$3.00	$4.00

It shows another facet of the record, namely the sensitivity of WX's earnings to apparatus shipments.

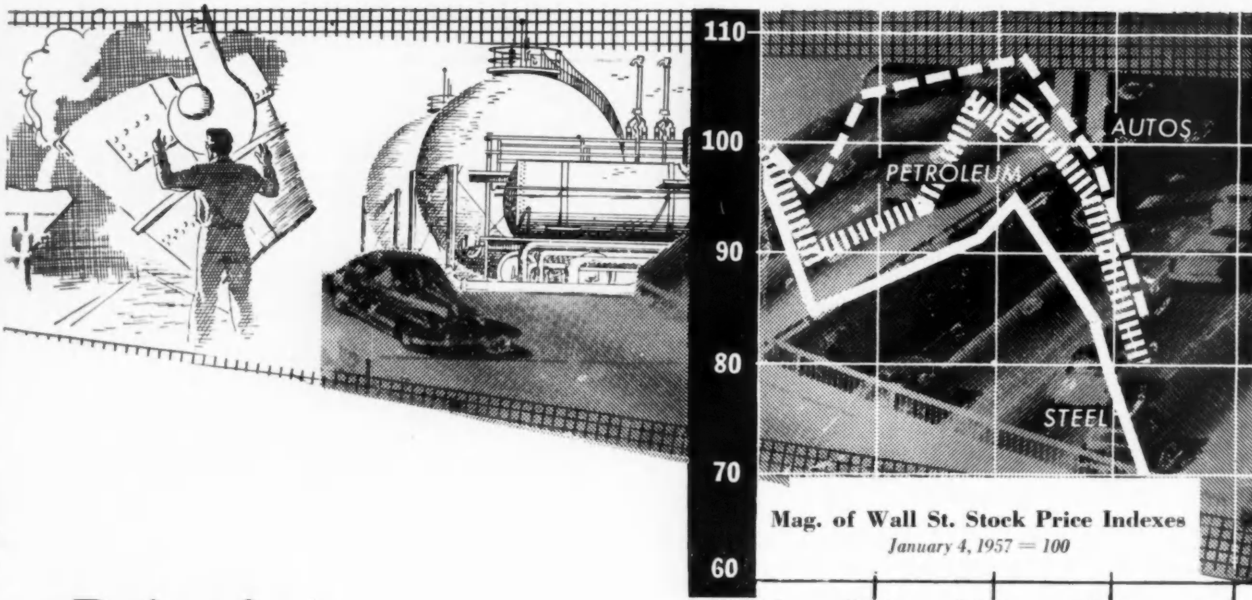
(*Please turn to page* 244)

Income Data

	Sales (Mil.) General Electric	Sales (Mil.) Westinghouse Electric	Income Tax (Mil.) General Electric	Income Tax (Mil.) Westinghouse Electric	Depreciation (Mil.) General Electric	Depreciation (Mil.) Westinghouse Electric	Net Income (Mil.) General Electric	Net Income (Mil.) Westinghouse Electric	Earnings Per Share General Electric	Earnings Per Share Westinghouse Electric	Shares Oust. (000) General Electric	Shares Oust. (000) Westinghouse Electric
1952	$2,987.5	$1,454.2	$275.9	$99.0	$65.3	$21.8	$169.1	$68.5	$1.76	$4.23	28,686	15,764
1953	3,506.0	1,582.0	323.7	74.2	73.5	28.7	174.1	74.3	1.92	4.53	28,688	15,985
1954	3,329.4	1,636.1	205.0	87.9	86.3	37.8	201.5	79.9	2.30	4.78	85,919	16,332
1955	3,442.5	1,440.9	185.8	41.3	96.9	43.1	197.6	42.8	2.40	2.46	86,298	16,644
1956	4,090.0	1,525.3	210.0	1.8	108.6	46.5	213.7	3.4	2.45	.10	87,143	16,743
1957 (9 mos.)	3,169.2	1,477.2	183.1	50.9	......	....	182.9	49.1	2.10	2.83	87,341	16,756

Balance Sheet Data

	Total Assets (Mil.) General Electric	Total Assets (Mil.) Westinghouse Electric	Long-Term Debt (Mil.) General Electric	Long-Term Debt (Mil.) Westinghouse Electric	Working Capital (Mil.) General Electric	Working Capital (Mil.) Westinghouse Electric	Cash & Mark. Sec. (Mil.) General Electric	Cash & Mark. Sec. (Mil.) Westinghouse Electric	Common Stock & Surplus (Mil.) General Electric	Common Stock & Surplus (Mil.) Westinghouse Electric	Book Value Per Share of Com. Stk. General Electric	Book Value Per Share of Com. Stk. Westinghouse Electric
1952	$1,579.5	$1,195.2	....	$273.8	$398.7	$553.2	$351.0	$235.7	$ 872.8	$622.1	$10.79	$40.43
1953	1,696.5	1,265.3	....	323.8	370.3	629.7	435.1	220.3	932.4	668.8	11.46	42.78
1954	1,690.1	1,328.9	....	323.8	310.0	692.1	307.0	344.4	1,008.2	711.5	12.18	43.66
1955	1,727.5	1,287.6	....	322.3	288.3	736.1	116.1	351.3	1,068.8	747.6	13.07	44.89
1956	2,221.1	1,264.4	$300.0	320.9	590.3	687.2	67.0	129.0	1,143.3	722.6	13.54	42.84



Bringing AUTOS—STEEL—OILS *Up To Date*

By JOHN WALTHAM, Jr.

Intensified competition in the automobile industry is being reflected in cost absorption on a scale that will probably mean reduced profits for the leading companies in 1958. This is becoming clear as the leading producers complete the introduction of their 1958 cars.

Many of the new 1958 model cars are being priced by the factories at levels which do not fully compensate for increased costs of labor and materials, and for the exceptionally high tooling costs.

Such cost absorption can occasionally be offset by a gain in volume resulting from exciting new models, or from the maintenance of attractive prices. But it is doubtful whether conditions are favorable for a gain in volume. Too many cars have been sold to the public on credit during the last three years to make it reasonable to expect a new boom in car sales before 1959 or 1960.

During recent weeks, several unfavorable factors affecting the automobile industry's profit outlook have become crystal-clear. Intensified competition between General Motors, Ford and Chrysler, as well as between foreign and domestic producers, has led to a tendency to raise prices on 1958 models moderately – much less than higher costs warranted. This is particularly true in the medium price field, where General Motors' Buick, Oldsmobile and Pontiac have failed in 1957 to retain their former share of the market. The appearance of the Ford Motor Company's new Edsel in this medium price category has also served to galvanize price competition. The leading producers are squaring off for a tussle in which profit margins will suffer.

There are several unfavorable factors in the automobile situation – as an offset to those that are favorable. At the moment, and probably over the next year or two, the unfavorable factors appear to predominate.

Here are the forces which are likely to restrict sales of new domestic-made automobiles:

• Autos are being sold on over-liberal credit terms, with small down payments and three years to pay quite commonly offered. Such over-liberal credit tends to draw on the future market for cars, since the purchaser is unlikely to buy a new car for at least three years.

• The American consumer appears to be growing more economy-minded. Whenever economy becomes popular, there are danger signals flying not only for autos, but for the entire economy. Car buyers, for example, have been shifting from medium priced cars to low priced cars. They are suddenly seeking gasoline economy, and therefore may buy a larger proportion of six cylinder engines, instead of the new high powered eight cylinder engines. This would entail a loss in dollar sales and profits for car producers.

• Foreign car makers capitalizing on the economy

vogue are invading the market en masse. It appears likely that sales of foreign cars will rise from this year's total of around 180,000 to at least 250,000 to 300,000 next year, with an equivalent drop in sales of American-made cars. In 1959 and 1960, this trend will probably continue, with GM, Ford and Chrysler bringing in more of their own foreign-made cars.

• There is a strong possibility that cars have been accounting for too large a proportion of the average consumer's spendable income. New needs are coming into the picture—college educations for children, cultural and recreational spending, etc.

• The national economy does not appear to provide a favorable background for an increase in car sales. Indeed, if a recession should make its appearance in early 1958, with layoffs and other uncertainties, the auto industry would do extremely well to equal 1957's indicated 6 million volume.

• Union demands present a potent threat to high production in 1958. Chances appear to favor a long strike against General Motors or Ford when the present three year contract with UAW expires next June 1. Any sales lost as a result of such a strike would be made up in following months and years, of course. But the effect on 1958 earnings on the companies affected would be extremely serious.

Offsetting these unfavorable factors are the following constructive ones:

• Some car makers, particularly General Motors and to a lesser extent Ford and American Motors, have made pleasing changes in their 1958 models, and should be able to capture a larger share of the car market.

• Dealers are successfully cleaning up the large inventory of 1957 model cars. They appear to be working harder, under the stimulus of bonuses and other costly concessions offered by the factory. However, their ability to sell at recent high volume of close to 500,000 units a month may be tested when they try to realize substantially larger unit profits on 1958 models during the next few months.

• This good clean-up, however, is being made possible by special seasonal discounts and bonuses offered to dealers by the factories. In effect, these are concealed price cuts.

• The growth of population and the movement to the suburbs has created an increase in the car market. The impact of this trend, however, will be felt more heavily in the 1960s, when family formation will turn up from present low levels.

On balance, the unfavorable factors appear to outweigh the favorable ones for the near term.

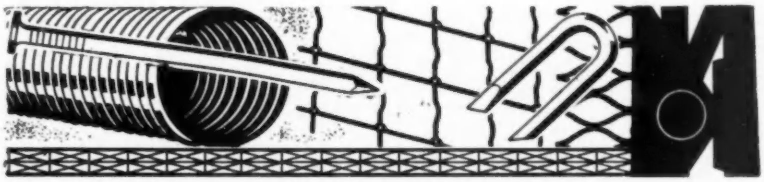
For individual car makers, 1958 will bring sharp shifts in prosperity. General Motors, having spent vast sums on tooling to recapture the share of the market it enjoyed prior to 1957, will seek to make a substantial recovery—trying to increase its share of the market from about 45-46 per cent to approximately 50 per cent. Increases are looked for by Chevrolet, Pontiac and Cadillac, on the basis of their thorough-going styling changes. Buick and Olds, with less complete changes, will have to rely on price competition to hold their share of the market.

Ford's poor timing in the introduction of its new medium priced car, the Edsel, is proving costly. It does not appear that Edsel will achieve a break-even position in 1958. The Ford line in the low priced field is the big money maker of this company, and the rather extensive changes made in this car for 1958 should enable Ford to hold most of the gains which it won in 1957.

Chrysler, standing pat on its successful 1957 cars, will get a smaller share of the market in 1958. By saving vast sums on tooling on its 1958 model, Chrysler is strengthening itself financially.

The auto industry is passing through a period of transition, in which its profit margins may temporarily decline.

For the near term, the auto industry will be suffering from over-spending on cars by the public during the last three years.



THE STEEL INDUSTRY

The outlook for the steel industry has become less promising during recent weeks. The normal Fall upturn has been completely absent. With many steel consuming lines apparently entering a period of reduced operations, and with productive capacity steadily climbing, the margin between the potential supply of steel and the demand has steadily widened.

A large part of the deterioration in the steel picture is traceable to the decline in the order backlog of makers of machine tools and other types of machinery, freight cars, and oil drilling equipment. In short, the capital goods sector of the economy, which has never been noted for its stability, has suddenly run out of gas, after the biggest plant expansion spree in history.

While the steel industry is not as dependent as it used to be on the capital goods steel products — plates, structural shapes and tubular products — the fact remains that near-capacity operations in machinery and other capital goods lines is necessary if the steel industry is to operate at a high rate. The present dip in requirements of the capital goods producers comes at a time when demand for the lighter steels—sheets, tinplate and wire—is already well below present expanded capacity, and even well below the demand level of 1955. Hence, the steel industry is receiving a double blow—consumer goods demand for steel is proving somewhat disappointing, and the demand from capital goods industries which seemed inexhaustible only a few months ago, has begun to ebb. *(Please turn to page 245)*

FOR PROFIT AND INCOME

Gyrations

Recent sharp gyrations in the market made big news and a bit of history but broke no all-time records. The industrial average fell about 28 points, or a little over 6%, in five trading sessions through October 22, with the biggest one-day plunge over 10 points. The climactic selling was followed by a rally of 17.34 points (about 4.1%) in a single day; but without any follow-through momentum. The fall from the July top to the recent low approximated 101 points, or 19.4%, in roughly 14 weeks. All of which is "bush-league" stuff when compared with the gyrations of late-1929 when the average fell nearly 40% from the top in about 8 weeks, then rallied 12.4% in one day and nearly 19% in two days, followed by a 15% fall in the next two days. The first-phase decline was extended to nearly 48% in less than 11 weeks and followed by a five-month intermediate recovery of 48% into April, 1930. Although the percentages were the same, the recovery, in points, was only half of the decline. Compared with the old history cited, this market no doubt will remain moderate. It is still problematical at this writing whether the low for 1957 has been seen and whether a recovery phase, if started, can be sustained into the forepart of 1958.

Bases

Technical bases for intermediate recoveries or new bull markets are rarely as obvious as one would like them to be. The market did not "fool around" for even a few days at most of the intermediate-swing lows of 1929-1932, 1937-1938, 1939-1942 or of subsequent periods of decline. There was no "flat base" of significant duration at the 1932, 1938, 1942 or 1949 bear-market lows. The October, 1946, low was duplicated within a fraction of a point at the May, 1947, low, with the intervening range of movement by the industrial average about 13%. You could call that a five-month "base"—but the subsequent minor bull market to mid-1948 ran to only about 18%. No bell rings at the turning points; and it will take more time for the significance of the recent performance to become clear. However, we have three firm opinions: (1) basis for important

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1957	1956
Addressograph-Multigraph Corp.	Year July 31	$8.40	$7.98
Int. Business Machines	9 mos. Sept. 30	5.40	4.69
Federal Pacific Elec.	Year June 30	2.57	2.13
Lukens Steel Co.	36 weeks Sept. 7	8.71	4.47
Grand Union Co.	Quar. Aug. 31	.65	.59
Ex-Cell-O Corp.	9 mos. Aug. 31	3.20	2.98
Texas Utilities Co.	12 mos. Aug. 31	2.50	2.21
General Telephone	8 mos. Aug. 31	2.02	1.92
Alco Products	Quar. Sept. 30	.58	.46
Consolidated Foods Corp.	12 weeks Sept. 21	.80	.29

advance in average stock prices is not visible; (2) few stocks are cheap on statistical appraisal; (3) investors should be concerned more with realistic appraisal of individual stock values than with questionable "market trend interpretation".

Bond Outlook

The progressive decline of the stock market during much of October was accompanied by easing in the bond market, although the municipal and corporate sections remained above the earlier 1957 lows. Bonds rallied with the stock market; and new offerings which had been "sticky" suddenly met eager demand following Washington reports that the Federal Reserve was at or close to the point of beginning some let-up in its anti-inflation tight-money policy. The bond market is affected at times by transient technical and psychological factors, but simultaneous weakness in bond and stock prices is basically contradictory. If the stock market is right in allowing for coming business recession, as it probably is, there must be some easing in interest rates and bond prices will trend upward. New-issue bonds, many available at yields around 5%, are attractive for income. There are better potentials for at least moderate profits in seasoned issues which are at large discounts under maturity pay-off prices and larger discounts under call prices. That is so of long-term low-coupon Government, Municipal and corporate bonds which were issued some years ago under easy-money conditions.

Income Stocks

For guidance of new readers, we repeat our previous suggestion that promise of shrinkage in bond yields over the next year or so means promise of appreciation, which could reach 10% to 20% or so in some cases, in good "straight-income" stocks which were depressed to yield levels in the vicinity of 6% largely in adjustment to high interest rates. Some examples among electric utilities are: Central Illinois Public Service, now at 27 yielding 5.9%; Cincinnati Gas & Electric at 26, yielding 5.8%; Duquesne Light at 32, yielding 6.2%; Illinois Power at 25½, yielding over 5.8%; and Public Service of Indiana at 34, yielding 5.9%. In the last instance, there is a fair chance for about a 10% boost in the $2 dividend rate during 1958.

Natural Gas

On average, stocks of utilities which are solely or mainly distributors of natural gas have fallen moderately more than electric power stocks; while stocks of pipe-line companies have declined about twice as much as electric utility stocks and about in line with the industrial list. The reasons are: (1) the pipe-line stocks had a large earlier advance and were over-exploited; and (2) rising costs of purchased gas have been squeezing their profits and those of gas-retailing utilities. Reports filed with the Federal Power Commission by pipe-line companies subject to its rate regulation showed a revenue gain of 11% for the 12 months through last July 31, but a shrinkage of 1.3% in aggregate net income. While the data from this source are belated, as usual, there has been nothing to suggest improvement in recent months. The bulk of all the natural gas marketed is produced by major oil companies. Any benefit that they derive from rising prices—despite F.P.C. control of well-head prices of gas moving into interstate commerce—is more than balanced by present less satisfactory results from oil operations. Many pipe line companies have moved into gas-oil production. Until a few months ago this was considered a plus factor by the stock market; but, on average, these companies produce only a moderate portion of the gas that they market; and, under present conditions, their potentials in oil are regarded with decidedly reduced investment enthusiasm. All of which leads to the conclusion that selected electric utilities are better buys here than are most natural gas stocks.

Air Lines

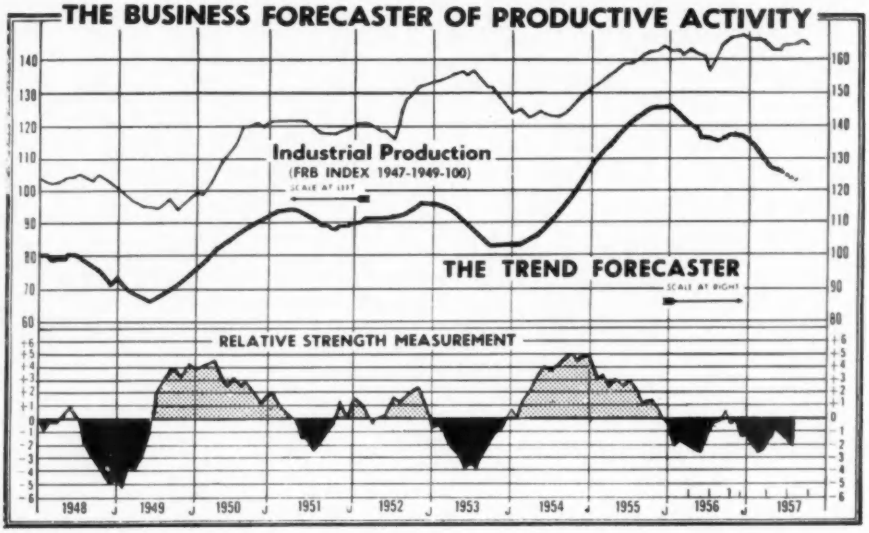
There is no change in our opinion that the air transport companies will remain "behind the eight ball" at least over the medium term. They need a cessation or slowing of the inflationary rise in operating costs. A slow-down therein is possible. They need sufficient further traffic growth, and sufficient delay in fleet expansion, to eliminate some of the present excess seating capacity. Correction in these respects is likely but will take considerable time. They need at least interim relief via higher passenger fares. The Civil Aeronautics Board may or may not grant some relief, with a decision believed more likely after mid-1958 than earlier. Down in 1956 despite rising revenue, earnings will be lower this year and probably still lower at least for the 1958 first half. But there is a primary consideration which at this point calls for a less bearish point of view on the stocks. It is that they are down, on average, over 50% from their 1955 highs. While earnings are deflated, the market appraisal is more so, as measured by price-earnings ratios. The issues sold much above book values at their tops. most of them are priced from around to well below book values now. Strong long-term traffic-revenue growth is indicated. There is a basis for hoping that, under necessity, ways and means can be found to translate it into better profits than are now being had. Hence, we suggest staying with speculative holdings at present depressed levels. Moreover, there is something to be said for averaging down on holdings, or venturing new long-range speculative buy-

(*Please turn to page* 248)

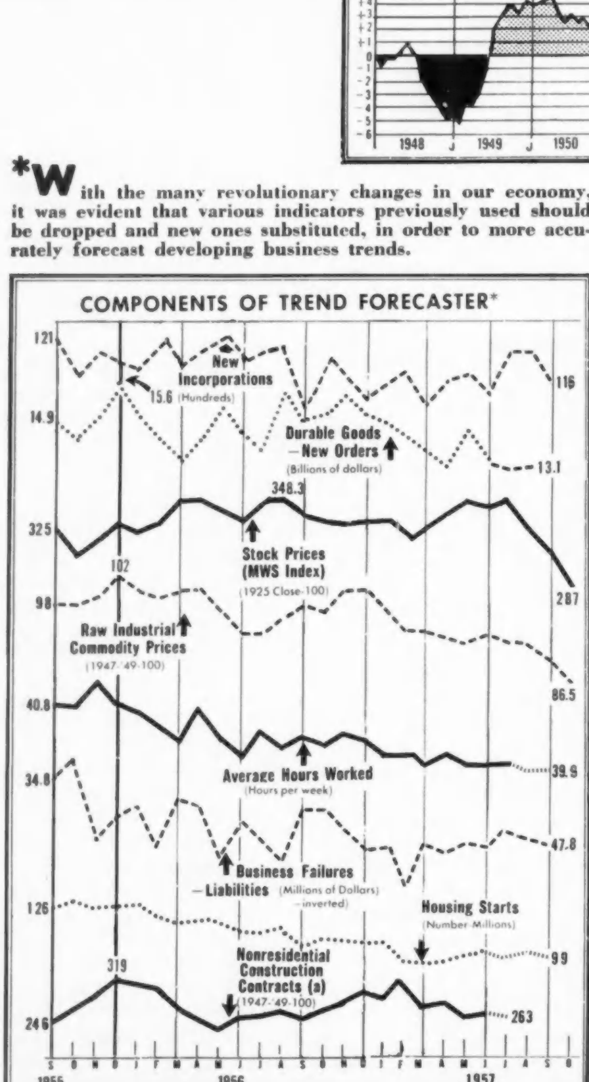
DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1957	1956
Schick Inc.	9 mos. Sept. 30	$ .72	$1.75
Fajardo Suar Co.	Year July 31	.10	.68
Hooker Electrochemical Co.	Quar. Aug. 31	.28	.48
Wayne Pump Co.	9 mos. Aug. 31	1.01	2.37
Eversharp, Inc.	6 mos. Aug. 31	.52	1.23
Beckman Instruments, Inc.	Year June 30	.16	1.36
Mueller Brass Co.	Quar. Aug. 31	.61	1.01
Diamond Alkali Co.	9 mos. Sept. 30	2.28	2.91
Sheaffer (W. A.) Pen	6 mos. Aug. 31	.34	.54
Sunshine Mining Co.	12 mos. Sept. 30	.20	.39

Business Trend Forecaster*



***W**ith the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.**



(*)—Seasonally adjusted except stock and commodity prices.
(a)—3 month moving average.

This we have done in our new *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

When the *Forecaster* changes its direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

It is clear from the individual series entering into the **Trend Forecaster**, as well as from the **Trend Forecaster** itself and its derivative measure, the **Relative Strength Measurement**, that American business has not enjoyed its normal seasonal improvement this Fall.

Two of the most significant of the eight component series—new orders in durables industries, and average hours worked by factory employees—have continued to decline. Prices of industrial raw materials and stock prices—two other components with notably good individual forecasting records—have also exhibited persistent weakness. The two construction contract series, which are more volatile and somewhat less reliable as general indicators, have moved erratically. Of the remaining two series, business failures and new incorporations, both have weakened after earlier strength. In general, the behavior of the components has clearly indicated no cyclical improvement in general business; the **Relative Strength** measure has remained in a significantly negative area, and the **Trend Forecaster** has continued to work its way steadily downward in recent months, as it has throughout the year.

Analyst

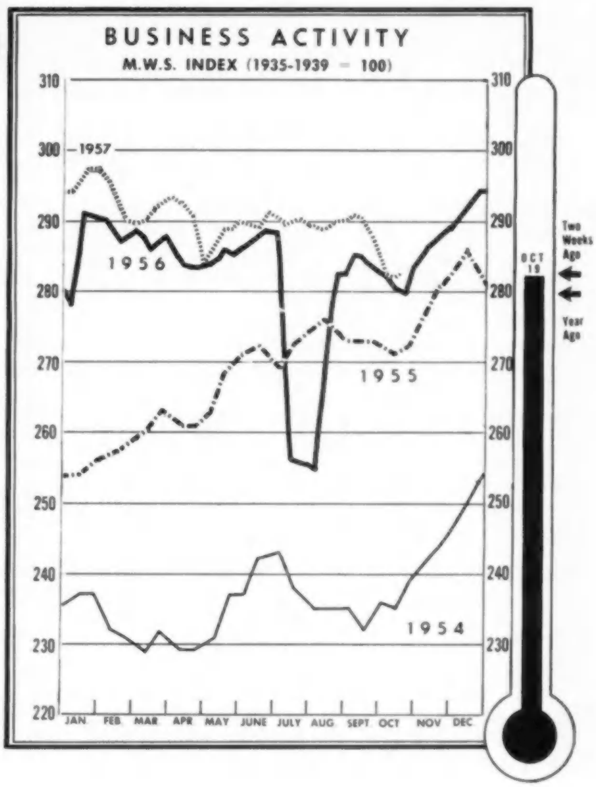
CONCLUSIONS IN BRIEF

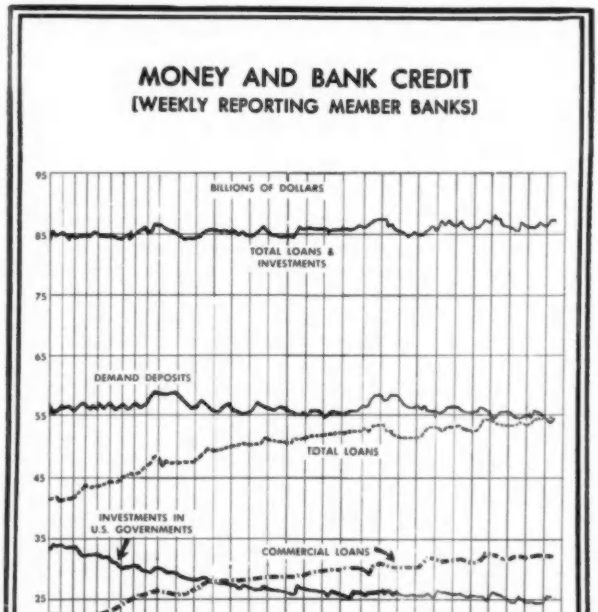
INDUSTRY — **Production in slight downtrend; in capital goods and raw materials industries. Decline still concentrated in durables lines; soft goods holding up. Outlook: further decline into 1958.**

TRADE — **Adequate but not encouraging volume at retail. Department store sales now at about last year's level in dollar terms, below last year in physical volume. Outlook: through Christmas, continuing at about current levels.**

MONEY — **Slow, but probably progressive, ease in money conditions now developing. Decline in interest rates not imminent, but no further rises in prospect. Business demand for funds now in sharp decline.**

COMMODITIES — **Prices still softening slowly. All of the upward pressure has been taken out of the wholesale price level by weakening of raw commodity prices. Outlook: slow but broad decline in prices for rest of year.**





Perhaps the most significant thing that can be said about present business psychology is that while businessmen are still tolerating a set of national policies designed to curb inflation, they are now increasingly aware that deflation has become the more imminent possibility.

In recent months, statistical reports on business conditions have turned notably and almost unanimously bearish. Stock and commodity prices; manufacturing statistics; corporate earnings information; production indicators such as freight carloadings; trade indicators such as department store sales—all point to a definite slowing in the pace of national activity. This slowing is not simply "a slower rate of increase," as it is often euphemistically phrased. It points to an absolute decline in business volume, with accompanying decline in employment and earnings. There is nothing to indicate that it will be any more severe or rapid than past postwar bouts with the business cycle; but there is no immediate evidence that it will not be more severe, and there is no way of measuring its possible duration.

This column noted several month sago that business sentiment was considerably stronger than the actual business trend appeared to warrant. Since that time, sentiment has weakened substantially—witness the securities markets. But the statistical trend has also worsened, and there remains a gap between sentiment and fact that is still to be closed. General business reports for the last half of 1957, which will not be complete until early 1958, are now almost certain to paint a somewhat less pleasant picture of business than is now carried in the business press.

(Please turn to following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Sept.	144	145	144
Durable Goods Mfr.	1947-'9-100	Sept.	159	162	162
Nondurable Goods Mfr.	1947-'9-100	Sept.	132	131	130
Mining	1947-'9-100	Sept.	129	130	131
RETAIL SALES*	$ Billions	Sept.	16.7	17.0	15.9
Durable Goods	$ Billions	Sept.	5.6	5.7	5.3
Nondurable Goods	$ Billions	Sept.	11.1	11.3	10.5
Dep't Store Sales	1947-'9-100	Sept.	133	132	129
MANUFACTURERS'					
New Orders—Total*	$ Billions	Aug.	27.2	27.3	31.1
Durable Goods	$ Billions	Aug.	13.1	13.0	17.3
Nondurable Goods	$ Billions	Aug.	14.1	14.3	13.7
Shipments*	$ Billions	Aug.	28.6	29.0	27.6
Durable Goods	$ Billions	Aug.	14.2	14.6	13.7
Nondurable Goods	$ Billions	Aug.	14.4	14.5	13.9
BUSINESS INVENTORIES, END MO.*	$ Billions	Aug.	91.2	91.0	86.6
Manufacturers'	$ Billions	Aug.	54.1	54.1	50.4
Wholesalers'	$ Billions	Aug.	12.8	12.7	12.5
Retailers'	$ Billions	Aug.	24.2	24.1	23.7
Dept. Store Stocks	1947-'9-100	Aug.	143	143	141
CONSTRUCTION TOTAL*	$ Billions	Sept.	4.6	4.6	4.4
Private	$ Billions	Sept.	3.1	3.1	3.1
Residential	$ Billions	Sept.	1.6	1.6	1.6
All Other	$ Billions	Sept.	1.5	1.5	1.5
Housing Starts*—a	Thousands	Sept.	990	1,010	1,008
Contract Awards, Residential—b	$ Millions	Aug.	1,284	1,287	1,729
All Other—b	$ Millions	Aug.	1,534	1,614	1,224
EMPLOYMENT					
Total Civilian	Millions	Sept.	68.2	69.0	68.1
Non-Farm	Millions	Sept.	53.2	52.9	52.7
Government	Millions	Sept.	7.4	7.2	7.2
Trade	Millions	Sept.	11.6	11.5	11.3
Factory	Millions	Sept.	13.0	13.1	13.3
Hours Worked	Hours	Sept.	40.0	40.0	40.7
Hourly Earnings	Dollars	Sept.	2.08	2.07	2.01
Weekly Earnings	Dollars	Sept.	83.20	82.80	81.81
PERSONAL INCOME*	$ Billions	Sept.	347	347	331
Wages & Salaries	$ Billions	Sept.	241	242	230
Proprietors' incomes	$ Billions	Sept.	51	51	50
Interest & Dividends	$ Billions	Sept.	32	32	30
Transfer Payments	$ Billions	Sept.	21	21	19
Farm Income	$ Billions	Sept.	15	16	15
CONSUMER PRICES	1947-'9-100	Aug.	121.0	120.8	116.8
Food	1947-'9-100	Aug.	117.9	117.4	113.1
Clothing	1947-'9-100	Aug.	106.6	106.5	105.5
Housing	1947-'9-100	Aug.	125.7	125.5	122.2
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Aug.	106.8	108.0	106.2
Bank Debits*—g	$ Billions	Aug.	83.6	86.0	79.9
Business Loans Outstanding—c	$ Billions	Aug.	32.0	31.7	29.2
Instalment Credit Extended*	$ Billions	Aug.	3.6	3.5	3.4
Instalment Credit Repaid*	$ Billions	Aug.	3.3	3.4	3.1
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Aug.	5.1	3.1	5.0
Budget Expenditures	$ Billions	Aug.	5.9	6.3	5.9
Defense Expenditures	$ Billions	Aug.	3.9	3.6	3.5
Surplus (Def) cum from 7/1	$ Billions	Aug.	(4.1)	(3.3)	(3.0)

PRESENT POSITION AND OUTLOOK

On the economic road ahead now lie three important possible occasions for turning points: a clear and distinct reversal of monetary policy; a tax reduction; and an automobile strike at mid-year. In the next two or three months, the attention of businessmen and their advisers will doubtless be turning increasingly in the direction of these critical subjects.

* * *

PURCHASING AGENT'S EYE-VIEW — there is no better vantage point to watch the developing trend of industrial activity than that occupied by the purchasing agent, and the monthly surveys of the National Association of Purchasing Agents have long been a reputable source of information about the national economy. The latest report of this group underscores the general business uncertainty. Volume has continued slack in a large number of lines; Fall business has not improved as expected; interest in curtailing inventory, or at least arresting its further growth, is now extremely widespread. These opinions are amply confirmed by a set of statistics which are closely related to the activities of purchasing agents: freight carloadings continue to drift far below their seasonal norm.

* * *

PRODUCTION ROUNDUP — going into the last quarter of the year, general production activity was slipping downward at a slow, unsensational rate. Declines were being recorded in most capital goods lines — although the drops were sharper in nonelectrical machine lines than in electrical. Transportation equipment production was also in a decline, reflecting curtailment of production of defense equipment. Suppliers to the construction industry were also feeling the pinch; and a broad range of miscellaneous durables producers were finding their output dropping off as they reached the end of the sizable backlog cushion with which they entered 1957. On the other hand, soft-goods industries continue to find 1957 a banner year; on average, output in these industries is at or close to record levels. The only important exception to this is textiles and apparel. Even here, however, it is only textile mill production that is truly in a decline; production of apparel itself has held up well enough.

* * *

PRICES, WEEK BY WEEK — From mid-1955 to early 1957, the Bureau of Labor Statistics' wholesale price index, a monthly amalgamation of over 2,000

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1957 III Quarter	1957 II Quarter	1957 I Quarter	1956 III Quarter
GROSS NATIONAL PRODUCT	439.0(e)	434.3	429.1	416.7
Personal Consumption	283.2(e)	278.9	276.7	268.6
Private Domestic Invest.	65.5(e)	65.0	62.7	65.5
Net Foreign Investment	3.2(e)	3.5	4.1	2.0
Government Purchases	87.2(e)	86.9	85.6	80.6
Federal	50.8(e)	51.1	50.3	47.2
State & Local	36.4(e)	35.8	35.3	33.0
PERSONAL INCOME	346.5(e)	342.4	337.7	328.7
Tax & Nontax Payments	43.5(e)	42.9	42.2	39.8
Disposable Income	303.0(e)	299.5	295.5	288.8
Consumption Expenditures	283.2(e)	278.9	276.7	268.6
Personal Saving—d	19.8(e)	20.6	18.9	20.3
CORPORATE PRE-TAX PROFITS*		42.0	43.9	40.8
Corporate Taxes		27.4	22.4	20.8
Corporate Net Profit		20.5	21.5	20.0
Dividend Payments		12.5	12.1	12.1
Retained Earnings		8.0	9.1	7.9
PLANT & EQUIPMENT OUTLAYS	37.2(e)	37.0	36.9	35.9

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Oct. 19	282.8	281.7	279.8
MWS Index—per capita*	1935-'9-100	Oct. 19	214.2	213.5	215.5
Steel Production	% of Capacity	Oct. 26	79.9	80.9	101.2
Auto and Truck Production	Thousands	Oct. 26	131	100	129
Paperboard Production	Thousand Tons	Oct. 19	308	300	276
Paperboard New Orders	Thousand Tons	Oct. 19	255	274	252
Electric Power Output*	1947-'49-100	Oct. 19	226.4	226.9	219.2
Freight Carloadings	Thousand Cars	Oct. 19	727	742	829
Engineering Constr. Awards	$ Millions	Oct. 17	313	324	447
Department Store Sales	1947-'9-100	Oct. 19	129	132	129
Demand Deposits—c	$ Billions	Oct. 16	54.8	54.3	55.6
Business Failures	Number	Oct. 19	258	244	254

PRESENT POSITION AND OUTLOOK

commodity prices, rose persistently from month to month. In 1957, the trend grew erratic, and increases alternated with decreases. In July, the index rose; in August it rose again. In September it declined, and in October, it has declined further, judging by the 200-commodity weekly sub-sample published by BLS. More importantly, the current decline is occurring not just in farm products, but in the industrial component of the index as well. The price facts of late 1957 seem to be that the persistent weakness of raw commodity prices has finally cut all of the strength out from under finished goods prices, and as demand has weakened for these finished goods, the possibility of further price advances has been eroded away. As of now, the outlook for the BLS price index for the rest of the year is for a modest decline, in sharp contrast to its behavior in the last two years.

* * *

UNEMPLOYMENT — according to the latest Census Bureau figures, unemployment did not rise in September. However, the figures of the Bureau of Employment Security of the Department of Labor, covering insured unemployment, point to a week-by-week rise in the volume of insurance claimants. **There seems to be little doubt that since the Census Bureau took its count in early September, the level of unemployment has been on the rise.**

*—Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d) Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1957 Range High	1957 Range Low	1957 Oct. 18	1957 Oct. 25
300 Combined Average	346.6	297.7	280.6	279.7L
4 Agricultural Implements	282.4	203.6	211.8	203.6L
3 Air Cond. ('53 Cl.—100)	122.8	82.7	82.7	87.2
9 Aircraft ('27 Cl.—100)	1388.8	882.6	925.3	939.5
7 Airlines ('27 Cl.—100)	1022.5	581.5	581.5	581.5
4 Aluminum ('53 Cl.—100)	464.5	274.5	274.5	287.2
6 Amusements	172.6	126.5	128.0	126.5L
9 Automobile Accessories	384.4	309.6	309.6	316.8
6 Automobiles	54.3	41.9	41.9	42.4
4 Baking ('26 Cl.—100)	29.7	26.3	27.3	27.1
3 Business Machines	1285.3	956.2	997.4	956.2
6 Chemicals	652.3	514.6	514.6	520.6
4 Coal Mining	25.1	16.8	17.8	16.8L
4 Communications	106.0	84.0	84.0	84.0
9 Construction	126.8	100.7	101.9	100.7L
7 Containers	799.9	671.6	686.7	671.6L
7 Copper Mining	307.6	185.8	188.9	185.8L
2 Dairy Products	112.4	103.8	110.2	104.9
6 Department Stores	89.2	78.4	80.9	78.4L
5 Drugs-Eth. ('53 Cl.—100)	259.2	175.2	211.7	219.0
6 Elec. Eqp. ('53 Cl.—100)	244.4	187.8	187.8	190.1
2 Finance Companies	584.5	525.0	530.8	525.5
6 Food Brands	280.2	239.8	250.5	239.8L
3 Food Stores	183.9	153.8	172.2	170.5

(Nov. 14, 1936 Cl.—100)	1957 Range High	1957 Range Low	1957 Oct. 18	1957 Oct. 25
100 High Priced Stocks	236.9	192.7	192.8	192.7L
100 Low Priced Stocks	415.9	323.0	325.7	323.0L
4 Gold Mining	726.2	594.2	600.8	607.4
4 Investment Trusts	184.5	142.4	142.4	147.2
3 Liquor ('27 Cl.—100)	1094.5	855.7	865.7	855.7L
9 Machinery	523.4	374.6	374.6	379.7
3 Mail Order	174.6	143.8	147.2	143.8L
4 Meat Packing	142.6	103.5	104.9	103.5L
5 Metal Fabr. ('53 Cl.—100)	198.3	150.6	150.6	152.6
10 Metals, Miscellaneous	420.9	295.4	303.5	295.4L
4 Paper	1060.1	789.9	789.9	789.9
22 Petroleum	914.4	683.8	683.8	692.0
21 Public Utilities	263.6	236.5	236.5	236.5
7 Railroad Equipment	91.4	64.4	64.4	67.0
20 Railroads	72.7	48.7	49.4	48.7L
3 Soft Drinks	509.8	432.7	436.9	432.7L
12 Steel & Iron	393.0	275.1	275.1	283.0
4 Sugar	116.9	97.9	102.6	98.8
2 Sulphur	926.7	622.0	630.5	630.5
11 Television ('27 Cl.—100)	36.0	27.2	27.6	27.2L
5 Textiles	149.9	103.7	103.7	106.5
3 Tires & Rubber	197.6	158.4	158.4	158.4
5 Tobacco	101.5	87.0	96.4	98.9
2 Variety Stores	273.7	247.9	250.5	247.9L
15 Unclassif'd ('49 Cl.—100)	168.9	140.2	143.3	140.2L

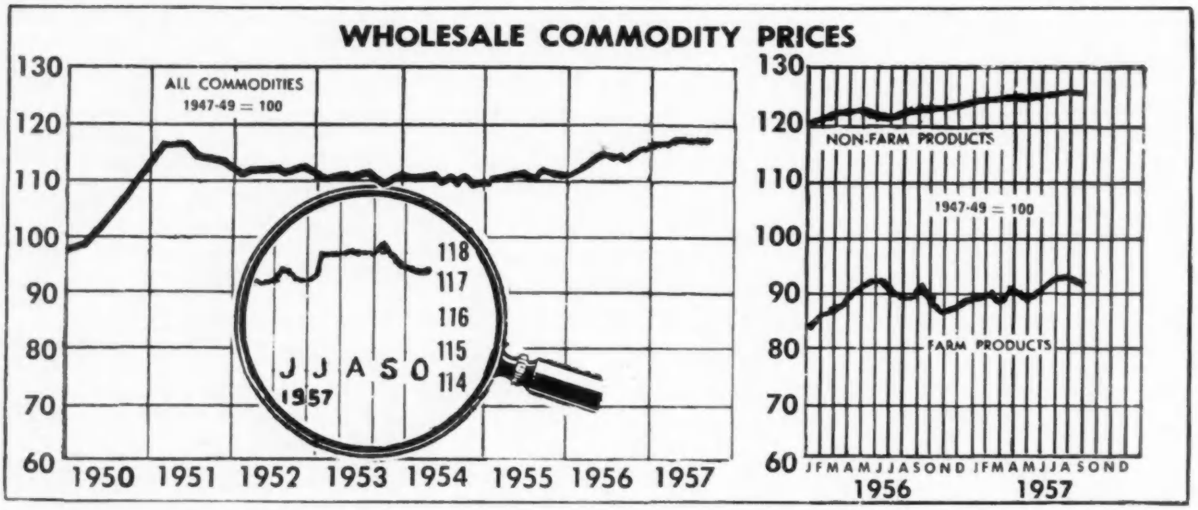
L—New Low for 1957.

Trend of Commodities

SPOT MARKETS — Sensitive commodity prices were irregularly lower in the two weeks ending October 25, continuing the decline that started in mid-August. The Bureau of Labor Statistics' index of 22 such commodities lost 0.2% in the period under review, although several of the major components of the index showed small gains. Weakness in industrial raw materials and in livestock was sharp enough to force a dip in the over-all index. Industrial raw materials fell 1.0% in the period with metals prominent in the slide-off. In the metals category, copper scrap, tin and steel scrap all were down. The latter dropped precipitously to reach its lowest level in more than two years. Although sensitive commodities are now at their lowest levels since 1950, no signs of an imminent upturn are visible as yet.

FUTURES MARKETS — Futures prices were a well mixed lot in the two weeks ending October 25, with advances and declines just about in balance.

Nearby wheat futures were slightly lower while the more distant options held firm. The nearby December gave up 1¾ cents to close at 216¾ after being as high as 221½ on October 17. Easing of the Syrian situation received credit for the downturn. The steadiness in the new crop months occurred despite reports that farmers were ignoring acreage controls in planting next year's crop. This could make the Government's support program largely ineffective next season. However, a good deal of this has already been discounted in the price of the July, 1958 future, which is 22 cents below the May, 1958 option.



BLS PRICE INDEXES 1947-49—100	Date	Latest Date	2 Wks. Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Oct. 22	117.7	117.5	115.6	60.2
Farm Products	Oct. 22	91.7	91.2	88.4	51.0
Non-Farm Products	Oct. 22	125.6	125.5	123.6	67.0
22 Basic Commodities	Oct. 25	84.4	84.6	90.0	53.0
9 Foods	Oct. 25	82.5	81.7	80.5	46.5
13 Raw Ind'l. Materials	Oct. 25	85.6	86.5	97.1	58.3
5 Metals	Oct. 25	90.0	91.8	122.1	54.6
4 Textiles	Oct. 25	79.1	78.8	81.0	56.3

MWS SPOT PRICE INDEX

14 RAW MATERIALS
1923-1925 AVERAGE—100

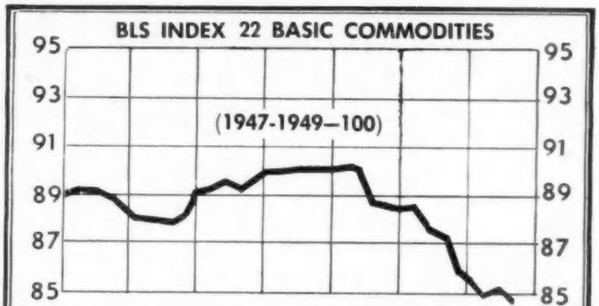
AUG. 26, 1939—63.0   Dec. 6, 1941—85.0

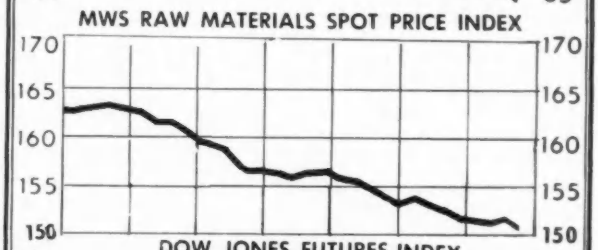
	1957	1956	1953	1951	1945	1941
High of Year	166.3	169.8	162.2	215.4	98.9	85.7
Low of Year	150.9	163.1	147.9	176.4	96.7	74.3
Close of Year		165.5	152.1	180.8	98.5	83.5

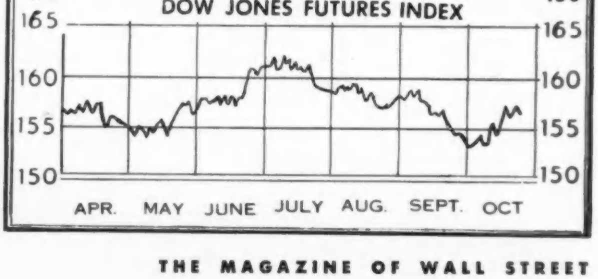
DOW-JONES FUTURES INDEX

12 COMMODITIES
AVERAGE 1924-1926—100

	1957	1956	1953	1951	1945	1941
High of Year	163.4	166.7	166.5	214.5	106.4	84.6
Low of Year	153.8	149.8	153.8	174.8	93.9	55.5
Close of Year		162.7	166.8	189.4	105.9	84.1







Man-made diamonds by the pound open new paths for industry

A report on a promising area in research and development activity at General Electric, by Dr. Guy Suits, Vice President and Director of Research

In 1955, the General Electric Research Laboratory announced the development of man-made diamonds, as one result of the Laboratory's continuing research in high-temperature and high-pressure phenomena. Today, the Company's Metallurgical Products Department is producing these diamonds in quantity for industrial use, and is supplying them to customers.

Estimates are that, with this important new source of supply, promising new applications could greatly increase the market in industrial diamonds in the next decade.

Thus, the combination of outstanding scientific talent, engineering and manufacturing skill, and enterprising business management has translated a research achievement into a new growth business for General Electric in a little over two years.

The General Electric share owner has recognized that research forms a basic element of competition in today's economy, and has supported sound research and development programs as a major source of his Company's growth. Scientific and technological discoveries from General Electric's laboratories not only advance the Company's competitive strength in existing markets, but also provide new materials, products, and processes for new business opportunities and increased sources of profit.

At present, investigations are being carried forward in General Electric's laboratories that will enhance our mode of living in ways that cannot now be adequately described or even foreseen. A few of the more significant projects are: peaceful utilization of the fusion process, creating new plastics strong enough for structural use, and developing tiny electronic devices that will find uses in the home, as well as in industry.

As in the past, we expect to continue this high level of research and development activity, for it helps accelerate progress for General Electric's customers, share owners, employees, suppliers, and dealers, and for the nation as a whole.

Guy Suits

VICE PRESIDENT

Made in U.S.A. Industrial diamonds produced at a General Electric pilot plant in Detroit will be used in critical cutting and grinding operations. For the first time, the United States will not have to rely entirely upon a closely controlled foreign supply.

DR. GUY SUITS has spent 27 years as a General Electric scientist. He himself has made many basic research advances in electric circuits, electronics, and high-temperature arcs, and holds more than 70 patents. Dr. Suits' address at the recent President's Conference on Research for the Benefit of Small Business contains more information on research and development at General Electric. For your copy, write: Department2-119C, General Electric, Schenectady, New York.

Progress Is Our Most Important Product

GENERAL ELECTRIC

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities at* reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Parke, Davis & Co.

"I have been a subscriber to your magazine for a good many years and would appreciate your reporting recent operations of Parke, Davis & Co."

C.D., Chester, Pa.

Parke, Davis & Co. is one of the oldest and largest producers of pharmaceuticals and biologicals. It manufactures approximately 600 pharmaceutical products in the U. S., Canada, and overseas.

The company has made a profit in every year since 1876 and it paid its 280th consecutive dividend on October 31st. The quarterly dividend was increased from 45¢ to 50¢ per share last September 25th. The regular 50¢ dividend will raise the total payment for this year to $2.00 per share.

Parke, Davis & Co. reported net sales and net earnings for the first nine months of 1957 that established a new all-time high for any similar period in the firm's 91-year history.

Net earnings for the first nine months of this year totalled $17,211,991, equal to $3.50 per share on the 4,919,160 shares of common stock outstanding at September 30th. This compared with net earnings of $13,828,507 for the like period of 1952 when the previous all-time high was established, and with $12,209,545 for the same period in 1956, when earnings equalled $2.49 per share.

Net sales for the 1957 nine-months period were $117,588,912, compared with net sales of $98,952,495, for the nine month period in 1952, and with $98,697,106 for the like period last year.

The new nine-month record in net earnings resulted primarily from general increases in sales of the firm's pharmaceutical products both domestically and abroad.

Estimated income taxes on company operations for the first nine-months of 1957 were $17,618,000, an increase of 35.5% over the $13,007,000 provided for the like period last year.

This year, company had net sales of $37,785,620 and net earnings of $5,598,589 in the first quarter and net sales of $38,100,722 and net earnings of $5,497,907 in the second quarter.

Third quarter net sales for this year totalled $41,702,570 with net earnings of $6,115,495, or $1.24 per share. For the third quarter in 1956, net sales were $32,114,949, with net earnings of $3,575,595 or 73¢ per share.

The introduction of new pharmaceutical products and with the demand for other products continuing good, earnings prospects appear favorable.

The Glidden Co.

"Will you please give me some detailed information on Glidden Co.? I am particularly interested in knowing its fields of operations and its recent earning record."

I.C., Atchison, Kans.

Glidden Co. operates five major divisions. The largest is the margarine, vegetable oils, etc. Others are paint, food, chemicals and naval stores. Company is among the four leading paint manufacturers and this accounts for around one-third of profits.

Net sales of the Glidden Co. for the fiscal year ended August 31, 1957, amounted to $225,537,291, compared with a total of $226,290,387, for the preceding fiscal year.

Consolidated net income of $7,264,437 for 1957 fiscal was equal to $3.16 a share on the 2,298,710 shares of capital stock outstanding at August 31st. Net income for the previous year was $8,146,737, or $3.55 a share on 2,295,990 shares outstanding at August 31st, 1956.

The small decline in sales volume for the last fiscal year was due to the sale of the company's margarine and salad products business east of the Rocky Mountains and the discontinuance of soybean and flaxseed operations at Buena Park, California. If the 1956 sales, which resulted from these operations were omitted from the totals reported last year, then 1957 total would have represented an increase of 2.3%.

The net income for 1957 was reduced by 29¢ per share because of start-up expenses on new facilities and non-recurring costs arising from the relocation and discontinuance of certain operations.

Higher depreciation, depletion and amortization charges were also factors in reduced earnings. These charges, amounted to $5,046,378 in 1957 or $2.20 per share, compared to $2,870,339, or $1.25 a share, in 1956. Although 1957 net income was lower because of these increased depreciation and amortization charges,

(*Please turn to page* 249)

Keeping Abreast of Corporate Developments

Eastman Kodak Co. has developed what it calls "a revolutionary new adhesive," which it described as "so unique in its combination of fast setting time and high strength that it promises to have a wide influence on industrial design."

The material is a compound and is a liquid. It can be used to bond glass to glass, wood to wood, or steel to steel and set in some five to twenty seconds depending upon the material the company said. The steel to steel bonds develop a tensile strength of 2,000 lbs. per sq. inch within twenty seconds and 5,000 lbs. after thirty minutes.

The new adhesive was discovered in the research laboratories of Tennessee Eastman Co., Kingsport, Tenn., Eastman Kodak said. This product is still in limited production, but test samples are being sold to laboratories for a sample kit.

General Electric Co. earlier this year announced the development of an electronic oven, but now states it will market the appliance "in about a year," the manager of the company's electric range department said.

The oven initially will be "high priced" but within five to six years, GE expects it to retail for about $500, the current price of the company's Deluxe ovens. The major advantage of the electronic oven is its speedy cooking time, according to GE. The device will turn out an oven-cooked meal in one-half to one-eighth the time required by conventional ovens, gas or electric, according to a GE official.

The Allen B. DuMont Laboratories, Inc. has announced, in participation with the Army-Navy Instrumentation Program, the development of a device which will make all-weather military and commercial aviation safer, the DuMont electronic contact analog generator which is a part of the new simplified aircraft instrumentation system. This system provides the pilot with a synthetic picture of the ground and navigational situation regardless of weather and flying conditions. In addition to simplifying the task of flying all types of aircraft, it will also serve as an aid in quicker and more efficient training of flight personnel.

The development of complex aircraft has complicated cockpit instrumentation to the point where pilots cannot operate at top efficiency while observing and assimilating the information presented on the numerous instruments. The Army and Navy, recognizing this fact, jointly undertook a program to develop the ideal combination of the machine and man who must operate it. Under contract with the Bell Helicopter Corporation, Fort Worth, Texas, and the Douglas Aircraft Co., Inc., El Segundo, Calif., they have established a program to determine the specifications for such a combination as well as to develop the operational equipment needed.

Hertz Corp. through its subsidiary, Hertz Rent-A-Car System, Inc., has placed the largest single auto order in history, the purchase of 19,737 new 1958 auto models for a total of $60 million.

W. L. Jacobs, president of Hertz Corp., said the new cars are mostly in the Chevrolet-Ford-Plymouth class and will replace and supplement the company's rental fleet in the U.S. and several South American and Caribbean cities. At the start of 1958, he said, Hertz will be operating more than 30,000 passenger cars compared with about 25,000 at the start of this year.

Mr. Jacobs said the $60 million order represents only two-thirds of Hertz's planned 1958 purchase. After April 18th, he said, the company will spend an additional $33.3 million for about 11,000 more 1958 autos.

Joint Oil Venture –

A new process for drilling oil wells offshore in depths of up to 1,000 feet with virtually the same ease and cost as drilling on land has been developed and patented by the Cuss Group, consisting of Continental Oil Co., Union Oil Co., Shell Oil Co., and the Superior Oil Co.

The Cuss Group, with Union Oil as operator, has used the patented techniques to drill over 300,000 feet of hole off California in depths believed impossible to explore. Holes have been drilled 1500 ft. while the small vessel containing the equipment rose, fell and swung under the impact of waves and currents.

The system involves (*Please turn to page* 248)

RARE INDIUM

makes airplane engine bearings 3 ways better

You'll probably be hearing more about indium. Among the good reasons why are the properties this metal demonstrates in aircraft bearings. Indium increases the strength of bearings to begin with. Besides, it provides high resistance to corrosion. And it imparts to bearings a remarkable capacity to retain their protective oil film.

Indium is also used in dental alloys, in making transistors, for bonding glass-to-glass and glass-to-metal. As a gasoline additive, indium steps up efficiency and gives a cooler-running engine.

As recently as 1924, the entire world supply of indium was a matter of grams. It is not found in a native mineral state, and metallurgical residues. In this recovery Anaconda has been a pioneer. By its patented process for extracting indium from zinc plant residues Anaconda, in 1956, produced 87,600 troy ounces of this relatively rare and versatile metal. Such developments have brought the price of indium way down—from several hundred dollars an ounce in 1930 to about $2.25 today.

This leadership in indium research exemplifies Anaconda's role throughout the whole non-ferrous metal field. Anaconda offers industry the world's broadest combination of non-ferrous metals and metal products—and the most advanced technical help in using them

The ANACONDA Company

The American Brass Company
Anaconda Wire & Cable Company
Andes Copper Mining Company
Chile Copper Company
Greene Cananea Copper Company
Anaconda Aluminum Company
Anaconda Sales Company
International Smelting and Refining Company

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Impact of New Missile Program

(*Continued from page* 198)

for the Government to come up with completed plans and specifications for a foolproof missile. The nation's aircraft manufacturers have invested more than $100 millions of their own money for the ballistics missile research program and more funds are available when the present supply runs out.

But dollar figures though interesting–are misleading. Today's dollar does not compare with the 1950 dollar in the market place, whether it be for peanuts or planes, melons or missiles. Because twice as much money is allocated today to planning and procurement of the new material does not mean that acquisitions will double. There are few industries so sensitive to inflationary factors as those in the field of armament. As will be illustrated at a later point in this discussion manpower and metals have zoomed costs in an industry which can use none but the best of both.

Buying Less Defense for the Dollar

It is meaningless to picture the progress in arming for defense in terms of X dollars allocated in 1951, against X-plus dollars available in 1958. Racing with each increased appropriation is increased cost of labor and material, narrowing, or even wiping out, the advantage that the mere recital of figures would seem to suggest.

The all-important element of rising costs seems to be by-passed in statements which have been tumbling over one another out of Pentagon offices. Army Secretary Wilber M. Brucker sees the work to date adding "not to goals reached but milestones on the path of progress."

When spokesmen for the military service speak as they frequently do of late, of the fact that money has not been a drawback in the achievement of operational missiles, or satellites, they are addressing themselves to the laboratory phases. It is true that the *millions* needed for research and trial have been available. But they are not speaking of the *billions* necessary to produce and procure. Even more does their comment avoid the fact that the return from appropriated dollars diminishes, almost daily.

That is why Rear Admiral Rawson Bennett, speaking with the authority of the combined services, was able to sidestep the effect of inflation on the broad program by using this constricted language:

"The only time schedule to which we have been committed was to make the satellite attempt within the International Geophysical Year. The United States satellite program is progressing according to plan."

And there is no reason why R.&D. (research and

(*Please turn to page* 238)

Major Missile Manufacturers

Missile	Prime	Airframe	Powerplant	Guidance	Service	Type
ATLAS	Convair	Convair	North American	*Arma, Etc.*	USAF	SS
BOMARC	Boeing	Boeing	Marquardt / Aerojet	*Westinghouse*	USAF	SA
BULLPUP	Martin	Martin			USN	AS
CORPORAL	*Jet Propulsion Lab*	*Firestone / Douglas*	*Jet Propulsion Lab*	*Gilfillan*	USA	SS
CORVUS	Temco				USN	AS
DART	Curtiss-Wright	Curtiss-Wright	Grand Central	Curtiss-Wright	USA	SS
DUCK	Fairchild	Fairchild	Fairchild	Fairchild	USAF	SS
FALCON	Hughes	Hughes	Thiokol	Hughes	USAF	AA
GOOSE	Fairchild	Fairchild	F~irchild	Fairchild	USAF	SS
HAWK	*Raytheon*	Northrop	Thiokol	*Raytheon*	USA	SA
JUPITER	*Chrysler*	*Chrysler*	North American	*Ford Instrument*	USA	SS
LACROSSE	Martin	Martin	Thiokol	Martin, Etc.	USA	SS
MATADOR	Martin	Martin	Allison / Thiokol	Goody'r, Fairchild Instr.	USAF	SS
NIKE-AJAX	*Western Elec.*	Douglas	*Picatinny*	*Western Elec.*	USA	SA
NIKE-HERCULES	*Western Elec.*	Douglas	*Picatinny*	*Western Elec.*	USA	SA
PETREL	Fairchild	Fairchild	Fairchild	Fairchild	USN	AS
POLARIS	Lockheed	Lockheed	Aeroiet	G.E.	USN	SS
RASCAL	Bell	Bell	Bell	Bell	USAF	AS
REDSTONE	*Chrysler*	*Chrysler*	North American	*Ford Instrument*	USA	SS
REGULUS I	Chance-Vought	Chance-Vought	Al'ison / Aerojet	Chance-Vought & Others	USN	SS
REGULUS II	Chance-Vought	Chance-Vought	G.E. / Aerojet	Sperry / Chance-Vought	USN	SS
SIDEWI NDER	*Philco*	G.E. / *Philco*	Navy	G.E. / *Philco* / Eastman	USN	AA
SNARK	Northrop	Northrop	Pratt & Whitney / Aerojet	Northrop	USAF	SS
SPARROW I	Sperry	Doug!as	Aerojet	Sperry	USN	AA
SPARROW II	Douglas	Doug!as	Bendix	Bendix	USN	AA
SPARROW III	*Raytheon*	*Raytheon*	Aerojet	*Raytheon*	USN	AA
TALOS	Bendix	McDonnell	McDonnell	Bendix	USN	SA
TALOS L	Bendix	McDonnell	McDonnell	Bendix / RCA	USA	SA
TARTAR	Convair	Convair	*Allegheny Ball*	Bendix / *Philco*	USN	SA
TERRIER I	Convair	Convair			USN	SA
TERRIER II	Convair	Convair			USN	SA
THOR	Douglas	Douglas	North American	AC *Spark* / *Arma*	USAF	SS
TITAN	Martin	Martin	Aerojet / RMI	*Arma*	USAF	SS

Key To Type Of Missile: SS—Surface To Surface. SA—Surface To Air. AS—Air To Surface. AA—Air To Air.

Impact of New Missile Program

(*Continued from page* 236)

development) money should be in short supply. Congress appropriated the $1.6 billion for this purpose but present estimate is that $5.2 billion will be spent this year. The added outlay will be extracted from production and procurement—again a lessening in the delivery of hardware.

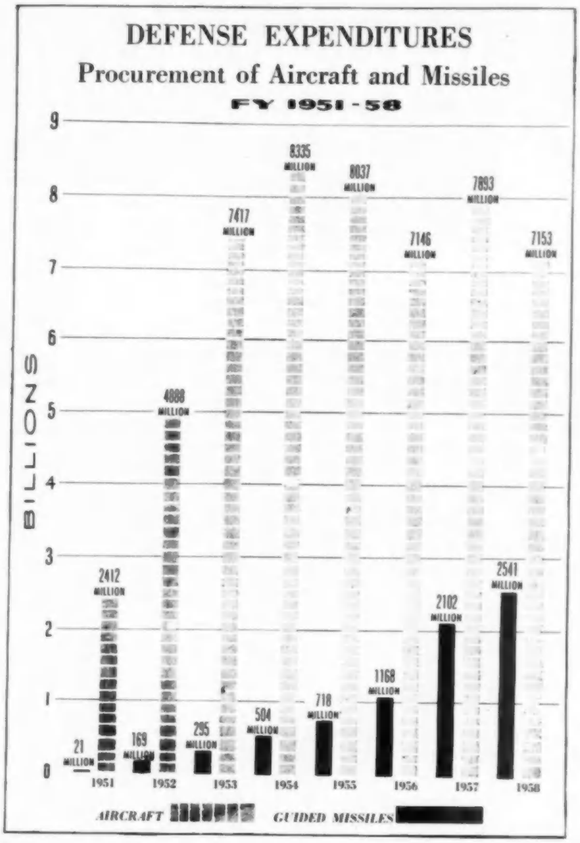
Wages has been a major factor in cutting the return, in terms of armament, for each budgeted dollar. In 1950 the average weekly earnings in plane and missile plants (they are largely interchangeable workers) was $68.39; by 1951 (one year later) they had risen to $78.40 and this year the average is $98.56.

Hourly wages went from $1.64 in 1950, to $1.79 in 1951, to $2.34 this year.

Meanwhile materials prices were following the upward trend in about the same proportion. Using the government-selected base period 1947-1949 to represent the price index 100, materials price had risen to 109.2 in 1950, to 120.9 in 1951, and zoomed to 157.6 in 1957.

Another illustration of the rising costs: a saddle type turret lathe used in the airplane industry in 1942 cost $12,000; in 1956 a replacement lathe cost $35,000, and with attachments to handle the newer and more durable materials now being fabricated, the price of the lathe is $67,000. This is typical in the tooling cost problems, not an isolated instance.

Greater speed of planes today with resultant increase in aerodynamic heating is decreasing the use of aluminum in relation to the more expensive steel. Other changes, including creation of new materials, have come too. Every rapid advance in the plane-missile industry so far has exceeded the rate of development of materials. The laboratory bill runs into the millions. The higher this and other costs reach, the higher the cost of the delivered unit, the fewer that can be produced if the appropriation remains static. —END



Latest Trends in Order Backlogs

(*Continued from page* 202)

may be necessary in the months ahead.

Deep Cuts in Machine Tool Backlogs

After the primary metals producers, machine tool manufacturers are the quickest to reflect changes in industrial conditions, and presently they are running true to form. Shipments so far in 1957 are at an $800 million per year rate, but new orders will aggregate little more than $500 million by year end. Reflecting widespread cancellations in the last two months the industry's backlog is now at its lowest point since 1950 and seems headed lower. In September alone new orders of $28.8 million were 35% behind the previous month and sharply below the $78.2 million reported in September 1956. Orders on hand now are equivalent to four months shipments. A year ago they stood at 7½ months.

Against this background, few of the reported backlogs for individual companies can be considered secure. **Cincinnati Milling,** by virtue of its leading position and outstanding record for new product development is a possible exception. By the end of June unfilled orders were down to $81 million from the year end figure of $102 million, and is undoubtedly significantly lower now. Despite its excellent record and a proven ability to weather cyclical swings through strong finances, lower production rates and earnings seem inevitable in 1958. Higher shipments this year should bring earnings to about $5 per share from $4.64 last year, but the 1958 comparisons will not maintain the pace.

The longer production cycle for heavy industrial and mining equipment puts the machinery makers in a slightly better position than the tool makers for 1958, but here too production slowdowns are in the cards for many companies.

Koppers Company, is a major manufacturer of blast furnaces, open hearth furnaces, by-product coke and chemical plants. In recent year, dependence on these cyclical fields has been lessened through concentration on tars, wood preservatives and chemical dyes. Backlog from all divisions has held up well and at the end of June had risen to $182 million from $164 million at the end of 1956. Since much of the backlog

(*Please turn to page* 240)

Latest Trends in Order Backlogs

(*Continued from page* 238)

represents long-cycle production, satisfactory shipments should be maintained in 1958, but no change is seen in the weakened price structure which lowered this year's first half earnings by 20% despite a modest sales advance. For all 1957 the company should earn $4.00 per share after $5.01 in 1956. In 1958 results may be somewhat lower.

American Machine & Foundry, on the other hand, which concentrates its activities in specialized machinery should fare well in 1958. Backlog in June was $88.8 million, slightly above the year earlier figure although revenues have advanced almost 40% this year. Interests are broad ranging from substantial rental revenues from its automatic pinspotters used in bowling alleys, to electronics and atomic energy. After recent acquisitions earnings advanced to $1.82 per share in the first six months of 1957 against $1.52 in the same period of 1956. Full year earnings may be close to $4.00 per share compared with $3.00 a year ago, and earnings in the opening months of 1957 should be steady. Considerable stability has been introduced into the earnings picture by rental revenues which now account for about 15% of the total, and are growing. It must be considered however that defense business plays a large role in revenues—but its specialized products afford greater security.

Investment Summary

Backlogs viewed with realism, are an important clue to future earnings, but this year, and especially in the next few months, they must be carefully scrutinized. Changes in defense strategy will lead to shifts even though the total funds allocated remain unchanged, and current capital expenditures may be downgraded fast if the present economic "lull" should deteriorate into a full scale recession. The President's recent decision to attempt to rebuild "confidence" is in recognition of unsettled economic situation. If he succeeds, industrial purchasing may stabilize at today's levels. If not, retrenchment will become the order of the day, and many comfortable-looking backlogs will dwindle quickly.

The accompanying table, comprised of representative companies in various industries will help readers to appraise backlog trends for other companies in those industries. In many instances more information will not be available until year-end statements are issued next March, or later. For this reason this study, and the accompanying table should be of value. —END

What Third Quarter Earnings Reveal

(*Continued from page* 205)

despite impressive gains in both passenger and freight revenues. Total income of American Airlines in the nine months ending September dropped dramatically to $10.1 million or $1.23 a share from last year's $17.1 million, equal to $2.15 per share. At the same time revenues rose almost 7% to $232 million from $217.5 million in the first nine months of 1956. This rise in revenues is reflected in the fact that the company carried more than 6 million passengers for a total of almost 4 billion passenger-miles during the first nine months of this year, an increase of 6.7% over the 3.7 billion passenger miles during the like period last year. The money-making air-freight business should not be overlooked, as American Airlines carried 64.6 million ton-miles of air freight for the first nine months of this year, a gain of almost 25% over 1956.

Another industry which has been operating under leaden skies in the past two years is the TEXTILE business. This industry has been plagued by excess capacity and highly competitive pricing, resulting in a high degree of instability of operations coupled with narrowing profit margins. The many restrictive factors have served not only to adversely affect the industry's earning power the past year, but five companies have omitted dividends, five others reduced their dividend payout, and only four companies were able to raise their distributions to stockholders. It seems quite certain that the industry does not face any particularly speedy recovery.

Production is likely to remain at current reduced levels, and near term profit prospects are not very promising.

Rayonier, Inc., one of the industry's leaders, clearly shows in its operating reports the declining fortunes which have beset the group. In the first nine months of this year, higher operating costs and lower sales contributed to a sharp dip in earnings for this company. Net profits were reported at $4.9 million or 90 cents a share, in contrast with last year's more than $11 million and the much higher $2.10 a share. Net sales fell to $89 million from $106 million in 1956. The profits of this diversified company were particularly hurt by the whole gamut of costs, most importantly manufacturing, raw material and transportation expenses.

In the CEMENT industry the prolonged strike, which began in mid-May, interrupted a steady progression of favorable year-to-year comparisons. **Penn-Dixie Cement**, which greatly strengthened its competitive position through acquisition and expansion, saw its sales recede to $13.1 million in the third quarter from $16.1 million a year ago. More importantly, however, the disruptions created by the strike caused profit margins to sink to 13.7% from 18.1% in the same period a year ago. Net per share fell sharply from $1.10 to $.64 in the same period. As a result, full year earnings should be significantly below the $2.97 per share earned in 1956, and may even fall short of the $2.59 a share for 1955.

In the PAPER industry, still beset by all of the capacity problems, profit margin shrinkage is also the order of the day. In **Scott Paper's** case, sales for the nine months ending September 28, topped the like period last year by roundly $4 million and climbed to almost $205 million, but net profits trailed last year's results. Furthermore, indicated net income and sales for the September quarter also trailed the 1956 quarter. Scott reported nine months net income of $15.9 million or $1.97 a share this year, down from $16.5 million or $2.05 a share in the like 1956 period. Indicated third quarter net equalled $5.1 million, down slightly from last year's $5.2 million, and net sales for the quarter were $65.2 million compared with last year's $66.6 million.

Utility Earnings Strong

But if most industrial companies are having difficulty in maintaining profit margins, a good number of UTILITIES have been climbing merrily along their way toward profit peaks. **Consolidated Edison of New York** is an outstanding example. This giant utility reported gains in nearly all categories of its business for both the nine months and the full year ending September 30th. Total operating revenues for the 12 months bounced to $545.8 million from last year's $516.9 million, while net income of slightly more than $55 million or $3.31 a share compared with $53.6 million and $3.21 on fewer shares a year earlier. Operating revenues for the nine months totalled $414.7 million against $391.4 million a year earlier, with net per share rising this year to $2.67 a share from last year's $2.56. The rising volume of business being achieved year-by-year in this industry is most vividly underscored by an analysis of Con Edison's sales to

its various customers. Electricity sales for the twelve months ending September 30th this year were $15.2 billion kilowatt hours against $14.3 billion a year earlier. Gas sales at 37.3 billion cubic feet were more than 400 million cubic feet ahead of last year. Steam sales, on the other hand slipped slightly to 16.5 billion pounds from 17.3 billion in the like 1956 period.

Investment Summary

Viewed as a whole, 1957's third quarter, corporate earnings contained a few surprises. In most instances trends also noticeable in the earlier quarters of the year have merely been expanded, confirming a mild business slow-down and the fact that it is just plain "tougher to make a buck". As we move into 1958, however, earnings and sales performances will have to be watched carefully to see if the patterns already noticeable begin to accelerate or show signs of levelling off. Fourth quarter results, when they are in, will contain the most important clues for 1958, but as of now no startling changes seem to be on the way. —END

Britain Girds for Survival

(*Continued from page* 211)

which investment spending in Britain had risen by 23 percent and 20 percent a year, the forecast for 1957 was an increase of no more than 7 percent while recently released tentative estimates for 1958 showed a fall of 5 percent from the 1957 level. Since all these estimates had been made *before* any of the new anti-inflationary measures were put into effect, the actual results may well be even lower. The capital goods industry is already beginning to contract. Its influx of new orders is now, for the first time in two years, less than its production. The same applies to building output. Both of these industries had counted on higher expenditures from the nationalized industries to offset the fall in defense orders and in private industry's investment plans. This will not now take place.

At the same time there are some first signs that industry's demand for labor may have passed its peak. This does not mean that unemployment has as yet reappeared in Britain. But since June, unfilled vacancies in industry have steadily dropped while the numbers of unemployed have slightly increased to their present figure of 1.2 percent of the working population.

Since these and several other downward indicators showed up before the recent restrictions, some economists assume that even without the latest special measures the economy would not be working at a higher level next year than in 1957. However, as a result of the new restriction, economic activity can now be expected to be down by at least three percent from its current level. Thus 1958 is likely to be Britain's first real recession year since the beginning of World War II.

Harsh Realities

The British government seems willing to bring about this situation in the hope that it will result in lower prices which in turn will strengthen the real value of the pound sterling. Of course, this will only happen if there are no outside forces, beyond the control of Britain, working in the opposite direction, namely to weaken the pound. The most worrysome among these is the recent reappearance of the dollar gap. If the pound is to continue as the currency in which roughly half the world's trade is financed it must obviously have adequate reserves of gold and dollars. At present it does not have them. In fact, it has been steadily losing gold and dollars every month. To a certain extent this is due, as we pointed out earlier, to bear speculation against sterling which the government hopes to stop with its new monetary measures. There are signs that this attempt is successful.

Recession Momentum

But it can not overcome trends on this side of the Atlantic moving in the opposite direction. The fact that U.S. imports were actually down in the 2nd quarter of 1957, compared to the same period of 1956, is of great concern to Britain in this connection. For sterling area commodity sales to the U.S. have always been a very important dollar earning source for the sterling bloc. Due to the levelling off of U.S. business activity and the decline in our defense spending we have spent considerably less dollars on such purchases this year than last. At the same time our exports have continued to climb and are for the second quarter of this year 16 percent above last year. The combined result of this has been a net inflow of gold and dollars into the U.S. since the beginning of this year, compared to the net outflow which had characterized each of the five previous years. Britain, as the world's second largest trading nation is, of course, particularly affected by this. Criticism of our foreign economic policy combined with worry over our economic situation, is therefore heard with increased frequency in the British isles these days What the British fear is that the combination of their own deflationary measures plus the decline of economic activity in North America may give the recessionary trend of their economy a momentum which may be difficult to stop when the time comes.

Rails Now — and Looking to 1958

(*Continued from page* 215)

Owing to the company's far-sighted maintenance policies, Missouri Pacific has obtained fair control over operating costs, so that earnings per share of Class A stock should dip only moderately under last year's $5.08 available for dividends.

St. Louis—San Francisco has been hard put to stabilize earnings in the face of higher expenses. The stock declined seriously from its recent highs, in part the result of uncertainty over the I.C.C. decision concerning Frisco's investment in the Central of Georgia. The average investor seeking income and stability would best avoid the stock for the time being.

Gulf, Mobile & Ohio's earnings suffered during 1957 from a variety of reasons, including lower traffic and increased costs. Competition from waterways, other railroads and highway trucks has also clouded the horizon. The current dividend payment of $2 is being covered by a narrow mar-

gin and earnings may not exceed $2.50 per share, compared with $3.85 last year.

Chicago & North Western under new management has rung up an astonishingly good performance, considering that this railroad has for years lazed at the bottom of the group as to traffic development, operating efficiency and payment of interest and dividends. Like other similarly situated lines, North West has staggered under a heavy burden of passenger losses (over $20 million in 1956), and main and branch line freight operations were not efficiently conducted. To the present management's credit, nearly 20% of the former employment has been reduced. In the meantime, service has apparently improved and maintenance is more effective than before. The securities of this railroad are still super-speculative, although definite progress appears under way.

Chicago, Milwaukee, St. Paul & Pacific has long suffered from passenger deficits, lack of heavy freight volume and a large number of uneconomical branch lines. A merger may be consummated with the North West at some distant future date. In the meantime, the stock is not suited for the average account.

Southern Carriers

Atlantic Coast Line achieved in 1957 what had previously been considered impossible, namely, a reduction in its extensive maintenance of way program. Simultaneously, traffic volume diminished slightly so that maintenance reductions to date have not been sufficient to counter-balance lower volume and higher labor costs. Earnings should approach $4.50 per share in 1957, which is down but not seriously from the $4.79 reported last year. An important adjunct of Coast Line is its stock holdings in **Louisville & Nashville,** which should earn about $8.75 this year, down from $10.70 last year. These two railroad stocks are substantial and conservative investment, and there should be no need to disturb present holdings.

Southern Railway revenues have quavered slightly from last year, so that earnings may fall to the extent of 75¢ below last year's $5.52 per share. The yield of 8½% is attractive, and all in all Southern Railway stock should be worth retention by those who seek well-protected income.

Seaboard Air Line's earnings slipped during 1957, and the year's results, estimated at $3.75 per share, contrast with the $4.20 earned in 1956. The $2.50 dividend payment provides a 10% yield.

The Pocahontas Group

Chesapeake & Ohio appears capable of improving upon its $8.28 per share earnings of 1956 by a slight margin in 1957. The stock yields about 7½% currently and sells about six times earnings. United States coal production is estimated at about 500 billion tons in 1957 and the outlook for 1958 portends a near repetition of this volume. Chesapeake & Ohio is considered to be one of the better grade railroads.

Norfolk & Western may report better earnings in 1957 than the $7.39 reported in 1956, and the company has just declared a 40¢ extra. The **Virginian** should also turn in a higher statement of earnings, perhaps over $5 per share vs. $4.08 last year. Both N. & W. and Virginian provide generous dividend yields.

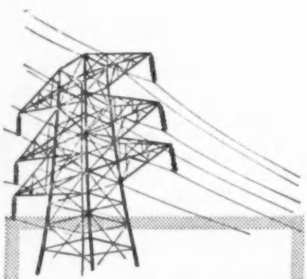
Eastern Railroads

With a few exceptions, the eastern carriers suffered both as to earnings and stock market performance in 1957. Some understanding of the problems should help to efface the stigma attached to these carriers, which possess good managements and a multiplicity of opportunities for improving efficiency. The New York Harbor strike early in 1957 affected all of the railroads serving the area, and a summer cement strike curtailed traffic volume for several carriers.

The **New York, Chicago & St. Louis** may earn slightly less in 1957 than in 1956. On the basis of an estimated $3.65 per share, the stock sells about six times these earnings and provides the yield of 8½%.

Delaware & Hudson has benefitted this year by profitable operations from its coal properties. The stock yields about 9% and sells slightly over four times earnings.

Erie and **Delaware, Lackawanna & Western** suffered a setback in earnings, and the common stocks



are selling at distress prices. Both of these railroads are expected to merge with the Delaware & Hudson, although no exact date has been settled. The Lackawanna bypassed its dividend last quarter, and the Erie reduced the dividend from 37½¢ to 25¢ per quarter. A reason given for the Erie reduction was the fact that the recent freight rate increase was inadequate to overcome higher wage and material costs.

Baltimore & Ohio should report earnings in the vicinity of $10 per share (vs. $10.85 last year). On the basis of the current $2 dividend, the stock yields 5¾% and sells only a trifle over three times projected earnings. The probable materialization of dividends from B. & O.'s investment in Western Maryland stock should be transmitted in part to B. & O. stock holders. **Western Maryland** recently paid off its bank loan, clearing the way for a common dividend. If the company disbursed $4 per share, the resulting yield of 7% would deliver a liberal return. Western Maryland stock reacted violently during the market of the past several weeks.

New York Central has pursued a diligent program of building new yards, constructing new signalling systems, and rearranging train service to provide equal or better service at lower operating cost. Heavy expenditures have been charged to current income. Combined with a slightly downward traffic volume, a lower level of net income was produced during the year, and earnings are estimated at $2.50 per share contrasted with $6.02 last year.

Pennsylvania common stock is priced around 15, evaluating the $2 dividend on a 9% basis, and the stock sells less than seven times estimated earnings. It is clear that inflation more than any other factor, has accounted for the less favorable results reported by the Pennsylvania, and is undoubtedly the principal reason for the proposed merger between the N. Y .Central and the Pennsylvania.

Outlook for 1958

Rail traffic volume next year will largely depend on the rate of shipments from basic industries such as automobiles, steel, heavy chemicals, mining and general manufacturing. Production levels are still fairly high and few business managers seem to feel that 1958 volume will be seriously less than during 1957. The chances are that the railroads will seek another round of freight rate increases, which should help to offset the next round of wage rises. Tax payments in 1958 will probably be higher since accelerated amortization will diminish during the year. On the other hand, some of the heavy maintenance and modernization projects can be reduced.

Even if net income for most railroads trends lower during the first half of 1958, it would appear that stock market prices for railroad securities have at least partially discounted these possible lower earnings prospects. —END

Comparing 2 Electrical Giants General Electric and Westinghouse

(*Continued from page* 221)

GE's record is obviously better, but to the extent that scheduled apparatus shipments are a guide for the future, WX's prospects seem excellent. Each company had peak earnings in 1950, but saw 1951 income drop under the impact of excess profits taxes, post-Korean cost increases (few major apparatus contracts then had escalator clauses; almost all do now) and very heavy new

plant start-up expenses. Even so, WX's earnings rose steadily, albeit slowly, from 1951 through 1954 before being stricken down by the 1955-56 strike.

WX's profits might have fallen in any case in 1955 because of scheduled lower apparatus shipments while GE's were maintained by the boom in appliances. In part, in fact, the weak condition of the apparatus market in 1955 (there was a most unusual price war during the spring) undoubtedly was responsible for the stiffening of the company's attitude during its labor negotiations.

Uptrend In Utility Spending Aids Westinghouse

Now the situation is quite different. Just as the downside of the cycle hurt in 1955, so the present strong uptrend should boost profits sharply. Westinghouse put the largest part of its postwar capital outlays into the expansion of utility apparatus manufacturing plants. These facilities are scheduled for capacity operations practically through 1959. The company's backlogs are at a record level and labor peace is promised by a five-year contract. The single most important part of WX's business is therefore in healthy shape. Earnings are climbing notwithstanding some small, or no profit shipments of products booked during the 1955 price war. For the first half of 1957 they were reported at $1.77 a share vs. a deficit of 76¢ in first half 1956. (GE reported $1.47 a share vs. $1.30.)

For the full year, Westinghouse may see earnings of over $4.00 a share despite general weakness in appliances and defense cutbacks. Higher earnings are freely predicted for next year as apparatus shipments swell.

What can be concluded from this examination of the two giant equipment makers and the security market's attitude toward them is this:

1. Where they are alike, their business prospects are similar. Uneasiness in appliances and uncertainty over defense work troubles both. The record of the past suggests strongly that GE will be better able to take advantage of the growth possibilities open to them. As a growth stock therefore it has more attraction to conservative investors and probably warrants the higher multiple of earnings the market applies to it.

2. At the same time, their important dissimilarity with respect to the signicance of the utility market favors Westinghouse. Of all the markets served by the two companies it is the only one whose immediate prospects seem clearly favorable and profitable. (Atomic energy is growing rapidly and will almost surely assume an ever-increasing role in each company's business. Profits from it are, however, another matter. Most experts are inclined to think a company lucky if it breaks even in atomic energy at present and few foresee significant profits before the 1960's.)

The shareholder naturally asks, "What does this mean to me?" For one thing it means that the industry is a good one to be in. WX common, with the poorer record, has, after all, doubled in value in the past 10 years and increased dividends by 60%.

As to choosing between the two companies, we can only suggest that individual considerations are the best guide. GE has the better record and has been the more consistent company. One might sleep better with it. Westinghouse has the better prospects but carries greater risk.

Bringing Autos—Steel—Oils Up To Date

(*Continued from page* 223)

The immediate impact of these twin developments has been reflected in the failure of the usual

Fall upturn to make its appearance. After getting up to around 82 per cent of capacity in a brief flurry in September, steel operations have eased off to around 79 per cent of capacity in recent weeks. This is not any better than the mid-Summer low. The industry will apparently do well to hold at this rate for the rest of the fourth quarter. This represents a substantial decline from the better than 90 per cent rate set for the first half.

For 1957 as a whole, production should make a creditable showing compared with past records. But the recent trend does not augur well for 1958. In the first half of this year, ingot output totaled 60.5 million tons. But the second half will probably total only around 54.5 million tons. This would mean output for this year of around 115 million tons, which would almost equal last year's total, and be only 2 million less than the 117 million tons produced in record-breaking 1955.

The order backlogs of the machinery and other capital goods producers have been so badly depleted that it does not seem likely that steel demand from this source will revive soon. Hence, even if demand from automotive and appliance companies holds steady, it appears likely that steel operations will decline further in the first half of next year. The industry may reach a low point of between 70 and 75 per cent of indicated capacity in the first half of 1958, with production for this period totaling only 52 or 53 million tons, or around 5 per cent less than in the second half of this year.

Inventory cutting is an important factor in the decline in steel buying. Auto and appliance companies have gradually brought their inventories in line with expected production schedules. But the capital goods producers, after operating at a record breaking rate, are now beginning to adjust their steel buying downward to the anticipated lower production level.

Analysts for steel companies feel that after these inventory adjustments have been completed, the steel industry will be in shape to stage a recovery in the second half of next year. Some market forecasters are already projecting production in the second half of next year to increase above the first half, and possibly to exceed output in the second half of this year if inventory reductions come to a halt. This would bring steel output for 1958 as a whole to the neighborhood of 108-110 million. This is a respectable total, but represents only about 78 per cent of the industry's expected capacity as of Jan. 1, 1958.

But much will depend on the state of the entire economy next year. If stubborn strikes develop in autos and other lines, as a result of the attempt to check exorbitant inflationary settlements with unions, steel output in the second half may not show the expected gain. Furthermore, the Administration has served notice that it is resolved to fight inflation of prices and wages. This may mean that Administration measures designed to stimulate the economy may not be taken as energetically as in the last twenty years, when a similar dip in the demand for steel made its appearance.

An operating rate of 75 to 80 per cent of capacity, which seems indicated for next year, is still a good rate, judged by pre-war standards. For the major steel producers, who have reduced their break-even point by new investments in equipment, such a rate would still provide adequate earnings, although somewhat lower than the record-breaking earnings of 1955 and 1956. These major companies—U. S. Steel, Bethlehem, Jones and Laughlin, Inland, Republic, and Armco—have excellent diversification of products. They have not charged premium prices, and their plants are modern and well maintained.

But for the marginal producers, the decline in profit margins has already been substantial, and some will find it impossible to stay out of red ink over the next year. The break-even point of these companies is high.

The substantial difference in the performance of the major companies and the marginal producers is already showing up in third quarter earnings reports. The difference will become even more marked in the fourth quarter, as well as in the first and second quarters of next year.

Steel capacity, approaching 140 million tons, has soared well above the indicated demand for the next few years. The excess capacity may make it more difficult for the industry to maintain prices. Thus far, outright price cutting has been avoided, although some secret concessions in extras, or over-allowances for scrap have been reported. Next year, with labor costs going up again, under the terms of the three year contract signed last August, the steel industry will have to boost its prices again, or sustain a damaging profit squeeze. In a soggy steel market, such price boosts may be more difficult to put into effect.

Steel stocks are going through another test. The ability of the major companies to sustain their earning power during a dip in volume is being closely watched. This test may prove more sustained than the test of 1953-1954, because the Administration may not ease its tight money policy as quickly or as energetically as it did at that time, when it was less concerned about inflation.

For the longer term, growth seems assured in the steel industry. But investors in steel stocks may have to pass through some uneasy moments during the next year.

Oil: Slackening in Demand, Increase in Supply

World oil demand seems to have reached a plateau on which it is likely to rest for a while. The main reason for this leveling off in the most widely used of all fuels is the apparent slowing down in United States business activity. Since the United States still accounts for some 55% of total world oil consumption, any decline here is, of course, bound to affect the world total.

Actually, although oil demand in the United States has increased by 4% since the beginning of the year, most of the boost is due to the abnormally large exports resulting from the Suez crisis. Without this export demand, there would have been no increase at all in the first half of 1957, indicating that Suez merely postponed a situation which had already been developing in the oil industry in the latter part of 1956.

Outside the United States, oil demand is still increasing in Europe, but there too the rate has slowed down perceptibly. However, this is not due to any slack

in general economic activity but rather to the continuing effects of the Suez crisis. During Suez there was a sudden halt of the coal-to-oil conversion process which had characterized the European energy economy ever since 1948. The reason was, of course, the fear of non-availability of oil. Though the continent never did suffer an oil shortage during the crisis, the psychological impact of Europe's total dependency on Middle East oil was such that the enthusiasm with which homes, factories and railroads had previously switched from coal to oil largely disappeared, as did government encouragement of coal-to-oil conversions. This does not mean that Europe will again rely on coal for the increases in its energy needs. There just is not enough coal left to do so. Furthermore, while coal imports from the U.S. have lately been quite high, it can not be assumed that Europe will switch to any important extent from Middle East oil to U.S. coal, although efforts to convert to nuclear energy will undoubtedly be intensified. In any event, the lower rate of increase in European oil demand seems to be a strictly temporary matter.

Of course, if Europe should also experience a decline in overall business activity that would be a different matter. Since the largest consumers of oil in Europe are industry and trucking, the European oil industry would be much more sensitive to any general economic recession than its counterpart in this country. Inasmuch as American oil companies are among the major suppliers and distributors of oil in Europe, such a situation would be of direct concern to them.

But the big headache of the oil industry is not demand. For as long as the population increases and the world's standard of living continues to grow, the use of oil must keep going up. All deviations from this trend can only be of a temporary short-term nature.

The situation, however, is quite different when it comes to the supply of oil. For the pure and simple fact is that there is more oil in the world than we can use and that additional oil is continuously being found. This is the reason why oil wells in Texas are permitted to produce only 12 days a month at present, why all U.S. oil importers have had their scheduled import program cut back by nearly one quarter, why Venezuela is getting increasingly worried about Middle East exports and the possibility of a pipeline from the oil fields of Alberta to the Canadian east coast and why the sheiks and kings in the Middle East are beginning to press for higher royalties and are opening up their countries to newcomers from all over the world who are likely to provide them with new markets. A couple of years ago, when it seemed Middle East oil production and royalties would increase indefinitely at some 10 percent per annum, most local rulers were much less eager for newcomers, for they felt they were already selling at the maximum rate which the market could absorb. Now there are signs that they are beginning to understand that oil may well become a more and more competitive commodity and that the only way to their share is to invite more companies with marketing outlets to produce and use their oil.

The complicating factor about world oil production is that as new fields are found, as in Canada and more recently the Sahara, other oil fields are not drying up. The one possible and extremely important exception to this would be Texas where it is now becoming increasingly difficult and expensive to locate new oil supplies on a large scale. However, for political and strategic reasons it would be absolutely impossible to shut down the bulk of the high-cost Texas oil wells and bring in low-cost Middle East or Venezuelan oil instead, though from a strictly economic point of view this would be entirely feasible.

Political and strategic reasons are also the main motivations for the continuing oil search in new areas throughout the world, despite the fact that so much oil is already available. Take the Sahara, for instance, which will begin commercial production on a small scale next January but should be a major producer within five years. Economically, there was no need for Saharan oil. There is certainly enough oil in the Middle East to supply all of France for as long as necessary. But for political reasons France is eager to reduce her economic

dependence on the Middle East oil fields and on Col. Nasser's Suez Canal. Thus, she is spending many millions of dollars to build up her own production which in time might even be big enough to supply France's total oil needs.

This attempt to reduce dependence on the Middle East is also in back of many other new oil ventures in both hemispheres. The latest political developments in that area have only added to this trend. For while the Middle East contains enough oil to supply the needs of the entire world for an indefinite period, it would be quite irresponsible on the part of oil consuming countries or oil companies to place exclusive reliance on it. For, politically and strategically it is one of the West's most vulnerable places. In fact, there can no longer be any doubt that the USSR has definite plans to achieve domination over the Middle East for the purpose of controlling Western Europe's oil supply. It will probably fail in this but alternative oil supply sources must be developed as a safeguard.

The difficulty is that as long as Middle East oil remains fully available, the oil from these alternative sources is likely to be a drug on the market, unless Middle East production is cut back correspondingly. This, however, would put the Western oil companies under strong pressures from the Middle East rulers.

For the investor this means a change in the tradition that the profits in oil are made in production, rather than in refining or marketing. Integrated companies seem certain to realize profits from their production, but the independent producer may be left with his oil in the ground and his profits unrealized. —END

Keeping Abreast

(*Continued from page* 234)

forming a base of operations at the bottom of the ocean connected to the ship floating on the surface by flexible guide cables. A drilling bit is suspended from the vessel from a number of lengths of drill pipe, and is guided by the cables to drill into the ocean bottom at the desired point.

An apparatus on the bottom of the ocean permits continued circulation of drilling mud.

Minneapolis-Honeywell Regulator Co. has opened a $4,500,000, 98,000-sq. ft. plant on a 95-acre site at St. Petersburg, Fla., for the production of inertial guidance systems for missiles and rockets. The new plant, to employ 600 persons by the end of 1957, is now working on nearly $3,000,000 of contracts, including an $1,800,000 contract for the development of an inertial guidance system for the Air Force's Wright Air Development Center at Dayton, Ohio. The company also disclosed the development of a new air-to-surface missile, called the Wagtail, for the Air Force.

Phillips Petroleum Co. through its Phillips Chemical Co., subsidiary, has opened a 180,000,000 lbs. a-year ethylene plant adjacent to the company's Sweeny, Texas refinery and natural gas liquids process center. The capacity can be increased to 290,000,000 lbs. a year.

Standard Oil Co. (Indiana) opened second ultraformer with a capacity of 21,000 barrels per day for refining ultra-high octane gasoline at Whiting, Indiana refinery. Company has started construction of a third ultraformer at Whiting and has completed a 60,000 barrel a day pipe still, increasing refinery capacity to 220,000 barrels a day to replace several small units. In addition, it has placed in operation a new 6,000 barrel a day lubricating oil plant, a modernized alkylation unit and a large volume high-octane gasoline plant.

Texas Co. has opened a $5,000,000, 20,000 barrel refinery on 400 acre site near San Diego de Cuba, for gasoline, kerosene, diesel oil and liquified petroleum gas production. Facilities include gasoline treating unit, catalytic reformer, hydrotreater and 1,000 ft. dock. The tank capacity is about 1,400,000 barrels. Texas Co. plans dredging operation to open harbor to ships drawing up to 40 ft.

Union Carbide Corp., through its National Carbon Co. division, has announced development of a fuel cell capable of producing thousands of watts of electric power economically through direct conversion of the chemical energy of gases into electricity.

First significant application of this new fuel cell, according to the company, which is producing the cells, is in providing silent electrical power for the U. S. Army Signal Corps new "Silent Sentry". The cells use hydrogen and oxygen as fuel. —END

For Profit and Income

(*Continued from page* 225)

ing, if the stocks recedes further under tax selling pressure in nearby weeks, even though the payoff in possible appreciation could take considerable time. The best issues are the domestic leaders: American Airlines, Eastern and United Air Lines.

Facts

As indicated by taxes paid on manufacturers' shipments, consumption of cigarettes showed another monthly and year-to-year gain in August. Usage for the first eight 1957 months was nearly 5% above a year ago. It is headed for a new full-year record. Dollar sales will exceed prior peaks by a wider margin. Such are the facts. Cigarette stocks remain moderately priced because the psychological effects of the protracted health-scare publicity have only partially worn off. We continue to think that the facts of earnings, dividends and yields will get more recognition. At 60, priced around 9 times likely 1957 earnings, yielding 6%, Reynolds Tobacco "B" is still one of the

cheapest investment-grade stocks in the market. After combing the industrial list again for promising, conservative buys, we still find no better one than this. Probably considerable money, released by sales of inferior stocks for tax-adjustment purposes, will switch into it.

Machinery

We concluded months ago, and warned, that machinery and other capital-goods stocks would follow the downward trend of new orders, without regard for good earnings on sales derived increasingly from shrinking backlogs of orders. So it has been. The stocks have been in the vanguard of the market decline. Most of them, even at present levels, range from amply priced to over-priced on inevitably lower 1958 earnings. They are not yet in a buying zone. They could decline more, whether soon or later on. Sounder buys are to be found generally in consumer-goods and service stocks.

Missiles

Outlays for missiles are now budgeted at $2.54 billion for the fiscal year ending next June 30, against $2.1 billion in the prior year. They may be stepped up, at expense of other weapons. The missile-aircraft news changes from day to day. Some company gets a new contract. Another gets a cancellation or stretch-out. What companies might earn how much from which missiles is a guessing game. This is not our idea of a suitable field for stock speculation. When you cannot base speculation on reasoning, you are gambling.

Earmark

Some better-than-average values to earmark for buying on dips are Air Reduction, McGraw-Hill, Mead Johnson, Merck, Pfizer, Sherwin-Williams, United States Gypsum and Warner-Lambert.

—END

Answers to Inquiries

(*Continued from page* 232)

cash earnings (net income after taxes plus depreciation and amortization) were higher. In 1957, they totalled $12,310,815, or $5.36 per share, compared to $11,017,076, or $4.80 a share for 1956.

Glidden's capital expenditures continued at a high rate in 1957. Amounting to $12,465,415, these funds were chiefly invested in facilities for titanium dioxide, tall oil, terpene chemicals and paint. Capital spending in 1958 will be about the same as in 1957.

All divisions of the company operated at a profit in 1957 fiscal year, and the outlook for 1958 appears favorable.

The $2.00 annual dividend yields a good income.

Consolidated Foods Corp.

"As a reader and one who believes the Magazine of Wall Street is rendering a fine service, I would welcome receiving information regarding Consolidated Foods Corp., listed on The New York Stock Exchange."

G. M., Phila., Pa.

Consolidated Foods Corp., leading canner, processor and distributor of foods, reported net earnings for the fiscal year ended June 30th, 1957, of $4,017,924, an increase of 33% over the $3,031,250 of the previous year. This is equivalent, after preferred dividends, to $1.64 per share on the 2,239,031 shares of common stock outstanding on June 30th, 1957, as compared with per share earnings of $1.45 in the previous year, based on the 1,814,560 shares outstanding June 30th, 1956.

Net sales reached a record high for the year, and at $332,381,095, were 24% higher than the $268,252,695 in sales last year.

Company reports that sales in first 12 weeks ended September 21st, 1957, were $79,770,654, up from $64,649,401 in the like 1956 period, and that earnings in the latest period were 80¢ a share, including non-recurring profit, against 29¢ in the similar period a year ago.

The company credits its continued growth in sales and earnings to its long term program of balanced diversification and food processing, distribution and retailing and its ability to offset last year's industry-wide difficulties resulting from an over supply of some West Coast canned fruits, of canned corn, and a highly competitive situation in prepared frozen foods with better than average results in other areas of operation.

Within the past fiscal year, the company acquired The Kitchens of Sara Lee and Columbia Canning, processors, Morey Mercantile, mountain states distributor, and Klein Supermarkets, 23-store retail chain in St. Paul and Minneapolis. As the period closed, the company was in process of acquiring Philips Packing Co., Cambridge, Md., which has now been integrated with the Baltimore subsidiary, Gibbs & Co., "as our new Coastal Foods Division."

Another subsidiary, Ocoma Foods Co., has developed a line of frozen precooked dinners of low calorie dietary type which will soon be placed on the market.

Net worth of the corporation has risen $5,290,257 to $55,875,872 and is now more than double the $25,303,240 net worth of ten years ago. Short term bank borrowings on June 30th had been cut to $3,000,000 or $8,150,000 less than at this time in 1956. In the same period, long term debt had been reduced by $3,371,341 to $15,203,968. The ratio of current assets to liabilities rose from 2.5-to-1 at the close of the past two years, to 2.8-to-1 on June 30th, 1957.

Quarterly dividend is 25¢ per share.

With sales currently showing an upward trend, earnings outlook over coming months appears favorable.

—END

Investment Clinic

(*Continued from page* 218)

bomber, various jet fighter planes and a nuclear powered aircraft, as well as commercial orders for piston and jet airliners. Canadair, Ltd. produces jet fighters and trainers, a turbo-prop jet transport, and nuclear energy components and guided missiles for the Canadian Government. Stromberg-Carlson Division makes telephone, sound and electronic equipment for both military and commercial use. Electric Boat Division is the only private producer of atomic submarines. Liquid Carbonic Division, resulting from a merger of September 30, 1957, is the largest maker of carbon dioxide, and also produces oxygen, acetylene and medical gases. Electro Dynamic Division manufactures electronic motors and generators. General Atomic Division is engaged in nuclear energy research, development and production.

In brief, the position of the

company is thus widely diversified and in consequence changes in one or more items of military procurement usually have minor impact on the business as a whole. The key to the company's past success, as well as to its future, has been its farsighted management and emphasis on research and new product development.

Its remarkable record of growth in recent years is indicated by the increase in net income from $1.5 million in 1946 to $31.9 million in 1956. On a per share basis, after adjustment for stock dividends, earnings rose from 63¢ to $4.14 in the 10 year period. For the first 6 months of this year, earnings increased to $2.32 per share from $1.47 (adjusted for 50% stock dividend) a year ago. As of June 30, 1957, unfilled orders amounted to $1.9 billion, as against $1.7 billion a year previous, excluding contracts under negotiation at both dates. It is estimated that earnings this year will moderately exceed 1956. The annual dividend rate is $2.00 per share.

For the investor able to assume a reasonable degree of risk, we recommend retention of the stock at the price at which it is selling.

Minneapolis-Honeywell Regulator Co. has a record of outstanding growth over a long period of years. The company has a preeminent position in automatic control instruments, used in regulating heat, controlling temperature, and in various industrial and transportation applications.

Its control devices as used in home heating, air conditioning and ventilating systems, as well as in commercial installations. Its industrial instruments regulate temperatures of molten steel; control the flow of liquids in chemical plants; regulate pressures in hydraulic systems; and find application in many other fields, including atomic energy. The company's products include pyrometers, flowmeters, thermometers, pressure gauges, precision switches, and controls used in automation or labor-saving machinery. It is active in the new field of semi-conductors or transistors. It produces special defense items, including products for aeronautical controls and guidance systems for missiles.

Recently, the company entered the plastic field through development of components to protect electronic instruments. Through Datamatic Corp., a wholly-owned subsidiary, it has an expanding position in electronic data processing systems for office and business use.

The company's sales, amounting to only $6.2 million in 1929, reached $45.9 million in the postwar year of 1946. Since then, sales have increased to $287.9 million last year. Net income rose from $5.1 million in 1946 to $22.4 million in 1956. After adjustment for stock split-ups, the 10 year gain in earnings was from 97¢ to $3.40 per share. For the first 9 months of this year, earnings were moderately lower at $2.08 per share, as against $2.20 a year ago, reflecting entirely a decline that took place in the third quarter. The indicated annual dividend rate is $1.60 per share.

The company continues to develop new products through research and has a substantial expansion program underway. Its outlook for further growth is most favorable. While the stock sells at a relatively high earnings ratio and low yield, it can be held by those who assume a reasonable businessman's risk – and in the course of events averaged at lower levels should the market continue its downward course. —END

As I See It

(*Continued from page* 193)

Middle East.

By exposing Russia's real ambitions in the area, Zhukov threw a monkey-wrench into Khrushchev's smooth-running machinery. He spoke out of turn as a spokesman for Russia—where only Khrushchev is the voice of authority. It must have rankled, too, to have Marshal Zhukov succeed in getting Tito of Yugoslavia to recognize East Germany – a task in which Khruschev had failed. It was easy then to show that the "man on horseback" lacked the diplomatic and political finesse needed in high Russian places in critical areas. And as if downgrading were not enough, Marshal Konev was found to be ready and willing to cut the insignia, the medals, and even the buttons from Zhukov's coat. In fact, it now seems we failed to give Mr. Khrushchev the credit he deserved for the way in which he rewarded Marshal Zhukov for his adherence in his recent bid for Kremlin leadership. By appointing him Minister of Defense, in charge of overall defense matters, he relieved him from control of the army, the basic source of his strength. No one thought about it at the time, but now Khrushchev's intention is clear. He feared the ascendancy of the popular marshal, and, as a result of Zhukov's mistake, is now in a position to relegate him to a subordinate post – and, he hopes, out of his way.

Whether Khrushchev will succeed in eliminating Marshall Zhukov without internal upheaval remains to be seen. The list of casualties grows long—Malenkov, Beria, Kaganovitch, Molotov, and now Zhukov. The disillusionment is also piling up, and the dissent is growing by leaps and bounds among the friends of the deposed. What Next?

The Trend of Events

(*Continued from page* 192)

(2) can prevent a disastrous decline in the value of the dollar, and have a moderating effect on any rapidly rising inflation—and (3), of extreme importance—that it will impose upon us the necessity for finding the way to solve the problems produced by the riotous economic-financial activities in which we have been engaged for so long a time.

Another point that cannot be over-emphasized—is that a sound dollar will help us to maintain our position, now under attack by Russia, and may prove to be our most effective weapon in dealing with Russian propaganda claims that we are on the verge of another one of those "capitalistic upheavals". Russia fears our financial-economic strength, and is already claiming that she is not only ahead of us scientifically, but that our economic machinery is breaking down too—as another evidence of the superiority of the Soviet system over that of free enterprise.

It is clear a sound financial position is the best answer to Russian propaganda too.

STATEMENT REQUIRED BY THE ACT OF AUGUST 24, 1912, AS AMENDED BY THE ACTS OF MARCH 3, 1933, AND JULY 2, 1946 (Title 39, United States Code, Section 233) SHOWING THE OWNERSHIP, MANAGEMENT AND CIRCULATION OF

THE MAGAZINE OF WALL STREET and BUSINESS ANALYST published Bi-weekly at New York 1, N. Y. for October 1, 1957.

1. The names and addresses of the publisher, editor, managing editor, and business managers are:

Publisher—C. G. Wyckoff, 90 Broad Street, New York 4, N. Y.

Editor—C. G. Wyckoff, 90 Broad Street, New York 4, N. Y.

Managing Editor—C. G. Wyckoff, 90 Broad Street, New York 4, N. Y.

Business Manager—Mr. Arthur G. Gaines, 90 Broad Street, New York 4, N. Y.

2. The owner is: (If owned by a corporation, its name and address must be stated and also immediately thereunder the names and addresses of stockholders owning or holding 1 percent or more of total amount of stock. If not owned by a corporation, the names and addresses of the individual owners must be given. If owned by a partnership or other unincorporated firm, its name and address, as well as that of each individual member, must be given.)

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3. The known bondholders, mortgagees, and other security holders owning or holding 1 percent or more of total amount of bonds, mortgages, or other securities are: (If there are none, so state.)

Cecelia G. Wyckoff, bondholder, 90 Broad Street, New York 4, N. Y.

C. G. Wyckoff, Inc. (bondholder), 7 West 10th Street, Wilmington, Del., the stockholder of which is C. G. Wyckoff, 90 Broad Street, New York 4, N. Y.

4. Paragraphs 2 and 3 include, in cases where the stockholder or security holder appears upon the books of the company as trustee or in any other fiduciary relation, the name of the person or corporation for whom such trustee is acting; also the statements in the two paragraphs show the affiant's full knowledge and belief as to the circumstances and conditions under which stockholders and security holders who do not appear upon the books of the company as trustees, hold stock and securities in a capacity other than that of a bona fide owner.

5. The average number of copies of each issue of this publication sold or distributed, through the mails or otherwise, to paid subscribers during the 12 months preceding the date shown above was: (This information is required from daily, weekly, semiweekly, and triweekly newspapers only.)

(*signed*) ARTHUR G. GAINES
Business Manager

STATE OF NEW YORK }
COUNTY OF NEW YORK }

Sworn to and subscribed before me this 1st day of October, 1957.

(*signed*) JACK KRANZ
Notary Public, State of New York
Qualified in Kings County
No. 24-2193900
Cert. filed in New York County

[SEAL]

(My commission expires March 30, 1959)

BOOK REVIEWS

The Innocent Ambassadors

By PHILIP WYLIE

Philip Wylie became a grandfather in 1956, and to view the baby, he and his wife flew from their Miami home to Hawaii. They characteristically decided that the most interesting – if not the shortest – way home would be straight ahead: via the Far East, Near East and Europe.

THE INNOCENT AMBASSADORS is the account of that trip and, despite what readers of "Generation of Vipers," "Essay on Morals," etc., might think, it is an apt title. Neither Mr. or Mrs. Wylie had ever visited most of the places they now saw with clear, curious, and often horrified eyes.

Because of Mr. Wylie's global roster of friends in commerce, industry and government, he had introductions to the highly placed everywhere; because of his ardently inquisitive nature, he sought out the opinions of the so-called "man in the street" at every port of call. Then he recorded his findings and impressions in what can be called a round-the-world "Generation of Vipers" that carries the reader from Hawaii to Japan, Hong Kong, India, Lebanon, Turkey, Greece. Rome and then on home.

What did he find? That Americans must at once shed their belief in the "purity" of the "white" race. That Russia is far ahead in the struggle to win the Cold War. That nothing in the world is as it has seemed from a distance. That nothing in the world as we know it will be safe unless we rid ourselves of fear, prejudice and apathy.

The professional observer's trained eye and ear have caught everything: vibrant color, shimmering heat distortion, clashing and jangling city noises. The races, religions, politics and customs of a vast swath of the earth's peoples are here keenly evaluated with meaning for all.

Philip Wylie has never more convincingly recounted the truth—truth that develops naturally from the application of a trained intellect to fresh, fascinating ideas and people.

Rinehart $4.95

How Russia Is Ruled

By MERLE FAINSOD

In this book, Mr. Fainsod draws aside the iron curtain to show how the peoples of the USSR are ruled. He describes how the Soviet political system actually works, how the great instruments of totalitarian power—the Party, the administration, the secret police, and the armed forces—are organized, how they operate, and the tensions and dissatisfactions they create. He brings the impact of Soviet rule down to earth, to the lives of the people in the factories, in the army, and on the collective farms: for in writing this book he has been able to draw not only on official Soviet sources but on the testimony of living witnesses, former Soviet citizens who have fled to the West.

How Russia Is Ruled is no abstract treatise on that country's Constitution and formal government organization; it gives a dynamic picture of the massive power structures at work in and upon Soviet society. Mr. Fainsod traces the origins of Bolshevism in the Russian past, recounts the seizure of power by the Bolsheviks, follows the transformations in the character of the regime since the Revolution, and then proceeds to examine the system of incentives, indoctrination, and repression by which the Soviet state of today preserves and extends its full-blown totalitarian rule. He describes the Communist Party and its role in Soviet society, and in a chapter on "Terror as a System of Power" he brings together much material not hitherto available on the activities of the secret police. He deals with developments since Stalin's death and analyzes the background and power positions of the new rulers of the Kremlin.

Mr. Fainsod's anatomy of modern totalitarianism at work is a powerful and arresting book. No one who reads it will lightly put his trust in imminent decay from within of the Soviet police state. But everyone who reads it will be grateful to Mr. Fainsod for his authoritative, readable presentation of a major factor in our lives today and tomorrow.

Mr. Fainsod, Professor of Government at Harvard University, is widely known for his books and articles on Soviet and American politics. He has lectured at the National War College, Army War College, Naval War College; has held various government positions; and has been director of political studies at Harvard's Russian Research Center.

Harvard Univ. Press $7.50

The Interplay of East and West
Points of Conflict and Co-operation

By BARBARA WARD

The destiny of the Western World may well be decided in the East. This new book by the brilliant contributing editor of *The Economist*, examines the past relationships between the civilizations, suggests policies for the West, and ventures a look into the future.

In recent years, the Western powers have become steadily more aware of the fact that they cannot frame and carry out national policies in isolation. This is a new state of affairs. A thousand years ago, there was little contact between Western and Eastern centers of civilization. Then for the last five hundred years, Asia has had to submit very largely to the dictation of the West. Now, in our own time, Asian powers have emerged once more as strong independent forces.

What can be the new relationships? Will they make for stability or unrest? Do they point toward a peaceful world or to disaster? Above all, can the Atlantic powers adopt policies which make for cooperation and sanity? These are some of the questions which Barbara Ward examines in the light of the fluctuating history of Western relations with the East.

Norton $3.50

TAKE CARE OF YOUR INVESTMENTS TODAY
—So They Can Take Care of You Tomorrow

(Important—To Investors With $70,000 or More!)

The general market unsettlement of the past few months has served to underscore the fact that securities today need careful and continuous supervision by a capable staff of investment specialists.

This is no time to follow a "*do nothing*" investment policy, which can prove so costly at a time when widespread changes are taking place in the activities, earnings and finances of leading, as well as secondary, companies.

Yet, few investors have the time, specialized training and experience . . . or the broad facilities and contacts . . . so essential to successful investment in a changing world. Most investors are too much occupied by their business, professional or personal affairs to learn of and interpret correctly the newest developments bearing on their holdings.

We believe the surest and most practical solution is Investment Management Service — which has successfully aided investors in markets of every type to protect and build their capital and income . . . looking to future financial independence.

Expert Analysis of Your Present Holdings:

Our first step in serving you is to make a detailed report—analyzing your entire list—taking into consideration income, safety, diversification, enhancement probabilities—today's factors and tomorrow's outlook.

Issues to Hold and Advantageous Revisions:

Definite counsel is given on each issue in your account . . . advising retention of those most attractive for income and growth . . . preventing sale of those now thoroughly liquidated and likely to improve. We will point out unfavorable or overpriced securities and make substitute recommendations in companies with unusually promising 1958 prospects and longer term profit potentials.

Close Continuous Supervision of All Holdings:

Thereafter—your securities are held under the constant observation of a trained, experienced Account Executive. Working closely with the Directing Board, he takes the initiative in advising you continuously as to the position of your holdings. *It is never necessary for you to consult us.*

When changes are recommended, precise instructions as to why to sell or buy are given, together with counsel as to the prices at which to act. Alert counsel by first class mail or air mail and by telegraph relieves you of any doubt concerning your investments.

Complete Consultation Privileges:

You can consult us on any special investment problem you may face. Our contacts and original research sometimes offer you aid not obtainable elsewhere—to help you to save—to make money.

Help in Minimizing Your Taxes:

We keep in mind the tax consequences of each transaction and help you to minimize your tax liability under the new tax provisions. (Our annual fee is allowed as a deduction from your income for Federal Income Tax purposes, considerably reducing the net cost to you.)

Annual Personal Progress Reports:

Throughout the year we keep a complete record of each transaction as you follow our advice. At the end of your annual enrollment you receive our audit of the progress of your account showing just how it has grown in value and the amounts of income it has produced for you.

Full information on Investment Management Service is yours for the asking. Our rates are based on the present value of securities and cash to be supervised—so if you will let us know the present worth of your account—or send us a list of your holdings for evaluation—we shall be glad to quote an exact annual fee . . . and to answer any questions as to how our counsel can benefit you.

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